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# Building The American City



*Report of the National Commission on Urban Problems  
to the Congress and to the President of the United States*





U.S. National Commission on Urban  
Problems.

# Building The American City

*Report of the National Commission on Urban Problems  
to the Congress and to the President of the United States*

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## LETTERS OF TRANSMITTAL

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NATIONAL COMMISSION ON URBAN PROBLEMS,  
*Washington, D.C., December 12, 1968*

HON. HUBERT H. HUMPHREY,  
*President of the Senate,*  
HON. JOHN W. MCCORMACK,  
*Speaker of the House of Representatives,*  
*House of Representatives, Washington, D.C.*

DEAR MR. SPEAKER: I have the honor to transmit to you the unanimous report of the National Commission on Urban Problems. The Commission was appointed by the President on January 12, 1967, to carry out the purposes defined in section 301 of the Housing and Urban Development Act of 1965. The act calls for a report to be made to the House of Representatives and to the Senate of the United States.

The Commission has explored the subjects assigned to it with great care. It has conducted hearings in the central cities and suburbs of over 20 locations throughout the country. It received testimony from almost 350 witnesses. It has undertaken an extensive research program covering some 40 specific subjects. The members of this Commission, all private citizens, met for more than 70 working days and were extraordinarily faithful in their effort and attendance.

It is the earnest hope of the members of the Commission that this report will prove helpful to the President, to the Congress, to State and local governments, and to the American people in coping with a great domestic challenge.

Respectfully submitted on behalf of all the members of the Commission.

Faithfully yours,

PAUL H. DOUGLAS.

---

NATIONAL COMMISSION ON URBAN PROBLEMS,  
*Washington, D.C., December 12, 1968.*

HON. LYNDON B. JOHNSON,  
*President of the United States,*  
*The White House, Washington, D.C.*

DEAR MR. PRESIDENT: I have the honor to transmit to you the report of the National Commission on Urban Problems, established by your directive of January 12, 1967, to carry out the purposes defined by you and further elaborated in section 301 of the Housing and Urban Development Act of 1965.

The Commission has explored the subjects assigned to it with great care, has conducted hearings in locations throughout the country, has received testimony from almost 350 witnesses, and has undertaken extensive research on some 40 specific subjects.

It is the earnest hope of the members of the Commission that this report will prove helpful to you and to future administrations, to Congress, to State and local governments, and to the American people in coping with a great domestic challenge.

Respectfully submitted on behalf of the Commission.

Faithfully yours,

PAUL H. DOUGLAS, *Chairman.*



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## Preface

President Lyndon B. Johnson in his message to Congress on March 2, 1965, called for the creation of a commission to study building codes, housing codes, zoning, local and Federal tax policies and development standards. He said such a commission could provide knowledge that would be useful in dealing with slums, urban growth, sprawl and blight, and to insure decent and durable housing. Congress approved his request and appropriated the funds to carry it out.

On January 12, 1967, President Johnson named the Chairman and members of the Commission and charged it to carry out the studies he and the Congress had requested. The President said the Commission's charter was twofold:

*First:* to work with the Department of Housing and Urban Development and conduct a penetrating review of zoning, housing and building codes, taxation, and development standards. These processes have not kept pace with the times. Stunting growth and opportunity, they are the springboards from which many of the ills of urban life flow.

*Second:* to recommend the solutions, particularly those ways in which the efforts of the Federal Government, private industry, and local communities can be marshaled to increase the supply of low-cost decent housing.

The congressional mandate was included as section 301 of the Housing and Urban Development Act of 1965. It described the purposes and needs for the study as follows:

The Congress finds that the general welfare of the Nation requires that local authorities be encouraged and aided to prevent slums, blight, and sprawl, preserve natural beauty, and provide for decent, durable housing so that the goal of a decent home and a suitable living environment for every American family may be realized as soon as feasible. The Congress further finds that there is a need to study housing and building codes, zoning, tax policies, and development standards in order to determine how (1) local property owners and private enterprise can be encouraged to serve as large a part as they can of the total housing and building need, and (2) Federal, State, and local governmental assistance can be so directed as to place greater reliance on local property owners and private enterprise and enable them to serve a greater share of the total housing and building need.

Section 301 went on to direct a specific study of:

\* \* \* the structure of (1) State and local urban and suburban housing and building laws, standards, codes, and regulations and their impact on housing and building costs, how they can be simplified, improved, and enforced, at the local level, and what methods might be adopted to promote more uniform building

codes and the acceptance of technical innovations including new building practices and materials; (2) State and local zoning and land use laws, codes, and regulations, to find ways by which States and localities may improve and utilize them in order to obtain further growth and development; and (3) Federal, State, and local tax policies with respect to their effect on land and property cost and on incentives to build housing and make improvements in existing structures.

The Commission was directed to report to the President, to Congress, and to the Secretary of Housing and Urban Development by December 31, 1968.

While the congressional and presidential charges gave the broadest scope to the Commission's assignment, the Commission itself imposed certain limitations on itself to make its task manageable and to be able to concentrate on topics that were mentioned specifically in the charge and which have tended to be most neglected by scholars and public officials alike. Each of these major subjects could merit a Commission study in itself.

Generally excluded from the report are matters which have had recent intensive treatment by others, such as the public welfare system, education, riots and civil disorders, law enforcement, and transportation. This does not reflect any downgrading of the importance of these or other matters not dealt with, or not treated in depth. All of these topics are vital. The Commission stressed that the city must be viewed in terms of the entire urban area, in terms of all of its functions, and in terms of all of its people.

The Commission pursued several avenues in preparation for its report:

*Inspections.*—The Commission saw for itself the problems of the cities. The members visited the ghettos as well as the suburbs in 22 cities in every section of the country. It studied not only the critical areas, but also viewed the solutions that had been or were being applied.

*Hearings.*—The Commission also set up public hearings in these cities, listening to private citizens, professionals, and officials. People were asked to testify specifically on matters assigned to the Commission, but witnesses also were invited to give oral or written testimony on related matters which they considered urgent. The transcripts of

the hearings have been published in five volumes.

*Research.*—The Commission staff and competent outside consultants engaged in many detailed research projects and studies, numbering over 40 in all, to establish a sound factual basis for the Commission's work. Many of these studies, because of their high quality and their timeliness, lent themselves to separate publications.

*Meetings.*—This was a working Commission. The members held meetings on more than 70 days to direct and review the research effort, and to frame recommendations for the specific problems that emerged. The recommendations in the report all have majority approval of the Commission. Mem-

bers frequently had differing viewpoints, but those who did not fully agree with the majority did not choose in most instances to register their differences in separate statements. The few such statements may be taken as a measure of the spirit in which the members worked. But the recommendations do represent the considered judgment of the Commission.

Because of the many subjects treated in the report, each Commission member obviously cannot be held personally responsible for every line or paragraph of the text. But the report does have general approval of the members. Their personal role in helping to rework the report through four major drafts indicates their involvement and also their dedication to the task.

# CONTENTS

	Page		Page
Letters of transmittal.....	III	Part IV. Government structure, finance, and taxation:	
Members of the Commission.....	IV	Chapter 1. Toward a more viable structure of urban government.....	323
Commission staff members.....	V	—with <i>recommendations</i>	
Preface.....	VII	Chapter 2. Urban services: Steps toward neighborhood regeneration.....	346
Table of contents.....	IX	—with supplementary view by Jeh V. Johnson and others, and <i>recommendations</i>	
Introduction and Summary: The city as it is and as it might be.....	XI	Chapter 3. The crisis of urban government finance.....	355
Supplementary views of David L. Baker.....	32	Chapter 4. State-local actions toward better urban financing.....	362
List of <i>recommendations</i> .....	33	—with <i>recommendations</i>	
Glossary of important terms.....	35	Chapter 5. Overhauling Federal aid for urban governments—A revenue sharing plan.....	376
Acknowledgments.....	37	—with <i>recommendations</i>	
Part I. The urban setting: Population, poverty, race.....	40	Chapter 6. Problems of land value taxation.....	384
Part II. Housing programs:		—with supplementary view by Paul H. Douglas and others and <i>recommendations</i>	
Introduction.....	56	Chapter 7. Federal income taxation and urban housing.....	399
Chapter 1. Housing needs.....	66	—with <i>recommendations</i>	
Chapter 2. Conventional programs—FHA, VA, FNMA.....	94	Chapter 8. Background data on urban government financing.....	408
Chapter 3. Public housing.....	108	Part V. Reducing housing costs:	
Chapter 4. Cooperative housing.....	134	Chapter 1. Housing construction costs.....	417
Chapter 5. Publicly assisted or subsidized housing.....	143	Chapter 2. Reducing construction costs.....	431
Chapter 6. From slum clearance to urban renewal.....	152	Chapter 3. Finance and closing costs.....	451
Chapter 7. Model cities.....	170	Chapter 4. Restrictive building practices.....	465
Chapter 8. The Housing Act of 1968.....	173	Chapter 5. Reducing housing costs—A summary.....	476
Section 9. Housing program <i>recommendations</i> .....	180	Section 6. <i>Recommendations</i> .....	481
Part III. Codes and standards:		Part VI. Improvement of the environment:	
Chapter 1. The structure of land use controls.....	199	Chapter 1. Environment.....	487
Chapter 2. Toward a more orderly urban development.....	235	Chapter 2. Design.....	493
—with <i>recommendations</i>		—with <i>recommendation</i>	
Chapter 3. Building codes.....	254		
—with <i>recommendations</i>			
Chapter 4. Housing codes.....	273		
—with <i>recommendations</i>			
Chapter 5. Development standards.....	308		
—with <i>recommendations</i>			



## INTRODUCTION AND SUMMARY: THE CITY AS IT IS AND AS IT MIGHT BE

### CONTENTS

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The anger of the slums is that of people disinherited from our society.

From a cottonfield in the South, big cities look like the only chance left to the rural poor, but city slums become prisons for the disinherited when they arrive.

Our big cities are hard up, costs of local government are skyrocketing, and representation for the poor in slums is almost nonexistent.

Coping with metropolitan area problems is incredibly complex because of the proliferation of local governments, all with differing viewpoints, within those areas.

Those most likely to live in substandard housing are the poor nonwhites who have big families and are renters. But they are not alone, a third of our affluent Nation cannot afford adequate, nonsubsidized housing today, despite great gains in our housing stock.

Segregation has been a complex problem nagging at America for years. Foot dragging at all levels has not helped. The problem remains critical.

Over the years accomplishments in subsidized housing are extremely inadequate. The Nation in 30 years of public housing built fewer units than Congress, back in 1949, said were needed in the immediate next 6 years.

Housing costs can be reduced if none of the many avenues for savings is dismissed as inconsequential. Add them all up and they promise to be substantial.

Escalation of land prices adds an ever bigger increment in the price of housing, and further explains the squeeze on low-income families seeking decent housing.

Zoning was intended to control land development, but fiscal considerations often distort it, leading to economic and racial exclusion.

Orderly urban growth can be the result of a political commitment on land-use decisions, who makes them and how they are made, plus the will to spend money on cities.

Building code jurisdictions are thousands of little kingdoms, each having its own way: What goes in one town won't go in another—and for no good reason.

Many places have no housing code. Those that do often do not enforce them properly. We need a new generation of housing codes embracing higher standards and tied in with environmental standards.

To free the building industry, product manufacturers, planners and the public from a hopeless maze of restrictions, we must develop a new system for codes and standards.

No broad attack on housing problems can ignore the sticky, myth-ridden issue of restrictive practices. Needed: More labor efficiency coupled with job security.

Cost-benefit ratios of the programs we suggest are mere bickering in light of our need for a real political commitment to solve our problems.

Perhaps the characteristic phenomenon of American politics in the 1960's will someday be seen as the emergence of the city as a political issue.

To do something about the urban crisis, as political commitment grows, we can start getting the rules changed: Revenue sharing, property tax modernization, Federal income tax revision. Tax incentives are not an efficient means to solve slum problems.

The Commission believes in a larger role for the cities. We must improve local governments and then give them more money and more authority.

The States are close enough to the people and yet enough removed from petty parochial interests to become major constructive forces in dealing with urban problems.

The solutions we call for are a tall order, but they are in proportion to the enormity of the problems of our urban areas.





# Introduction and Summary

*The anger of the slums is that of people disinherited from our society*

"You *know* what our slums look like! You *know* we need help there! We have rats, roaches, plaster falling from the walls, we have two-family flats rented out to four and five families with children, and sometimes no bathroom!" The young woman from the slums of East St. Louis was angry and accusing. There we were, she said, prying around looking at poor folks. She obviously felt that our interest was purely academic and clinical.

She couldn't have been more wrong. That afternoon of hearings in East St. Louis really hurt. And it was not the first time it hurt either. The National Commission on Urban Problems heard the same anger from hundreds of slum-dwellers all over the country in 1967.

At the outset of its formation in January 1967, the Commission knew what slums were. Like others, most of the Commission members had seen them and had read about them, but from a distance. We traveled to the slum areas of two dozen cities across the United States and heard from citizens—and the experts—in all of them. We could have stayed in Washington and gathered statistics, but statistics do not tell enough about a slum.

One has to see and touch and smell a slum before one fully appreciates the real urgency of the problem.

We walked the streets and talked with residents of the most notorious ghettos of the country. Names that are now becoming familiar to all Americans—Harlem, Watts, Hough, South Central, the Hill in Pittsburgh, the Hill District in New Haven, the North Side of Philadelphia, the West Side of Chicago, the East Side of Cleveland, and East St. Louis. We talked with people of all walks of life and all shades of involvement with the problems. Black and white, rich and poor, the administrators, the activists, the militants, and the concerned citizens. The experience was vivid and moving.

We saw the face of the deteriorating central city and the awesome pattern of suburban sprawl in southern California. We saw the face of redeveloping urban America—the Southwest of Washington, Lake Meadows, and Hyde Park

in Chicago, Dixwell in New Haven, Society Hill in Philadelphia, Roxbury in Boston, downtown Baltimore, and the new face of urban Atlanta.

We saw rural renewal in Grand Prairie, Tex., and the private renewal of areas that are just in the earliest stages of graying in Arlington, Tex.

The civil disorders of the hot summer of 1967 followed us and preceded us. We saw the ugly, burned-out urban streets that were still smoldering in some places, and we sensed the tension and the anxiety in communities that would erupt not too long after our being there.

To say that the urban problem is essentially a problem of big-city slums is not only simplistic, to a large degree it is erroneous. A slum is a geographic place with buildings and other facilities in varying stages of deterioration, but people as well as houses, stores, streets, and lots make slums. And what is happening in the slums and the rest of the central city cannot be separated from the kind and pace of growth in the suburbs.

The people in the slums are the symptoms of the urban problem, not the cause. They are virtually imprisoned in slums by the white suburban noose around the inner city, a noose that says "Negroes and poor people not wanted." It says this in a variety of ways, including discriminatory subdivision regulations, discriminatory fiscal and planning practices. In simple terms, what many of these practices add up to is a refusal of many localities to accept their share of housing for poor people. But the problem is more than that.

The urban problem can be described as the big-city slum, and as the white suburban noose, but also as all the problems of growth and population shifts and sprawl and public expenses connected with them. A far bigger *proportion* of Negroes—and of American Indians, Puerto Ricans, and Mexican-Americans—are subjected to poverty and to miserable housing than holds true for whites. But a far bigger *number* of whites are poor and in bad housing. Some point to the proportions and say the urban problem is entirely a racial issue. Others who point to the numbers say it has little to do with race.

Both miss important dimensions of what is happening. And what is happening threatens the future of our metropolitan areas.

Much of the problem has resulted from a lack of political commitment on the part of the larger society to do anything really constructive for and about the disinherited, the aliens within our culture.

Many Americans find it curious that slums should be such a problem, or the symptom of our biggest domestic problem. Why now? they ask. Slums have been a historical fact in every major city. The forebears of almost all Americans who are now in the middle class came through one urban slum or another, before moving into the mainstream of the larger society.

The imagery of a "mainstream" is useful in understanding the present slum problem. Like the waters that feed a big river, the rural poor trickle in from the fields and the hills. Time was when they paused in slack water (the slums) before moving out into the mainstream. Today the poor are still pouring into the slack water, although at a slower rate, but now there's a dam at the other end, so great numbers appear fated to stay in the slums unless they get help.

That dam, holding back the slack water, is a complex mixture of many things. One major component of it seems to be the present middle-class culture which is alien and even hostile to today's rural poor. Those in this cultural mainstream speak a different language and have different values.

But it is more than cultural. As the Commission investigated housing and building codes,

land-use policies, governmental arrangements, Federal housing programs, and local and Federal taxes that affect city growth patterns, we found a web of urban matters, often ignored and equally often misunderstood, which combine to deny decent housing, job opportunities, and minimum urban services to the poor.

A generation and more ago there were plenty of jobs that simply took brawn, jobs slum-dwellers could easily do. Most of the new job openings our society creates are white collar jobs and highly skilled jobs, jobs that take at least a high school education. However, you can't fully explain the current crisis by pointing out that most of those jobs are now done by machines. It's far more complex than that.

Our society is designed to assure most of us available alternatives to where we live, how we live, and what we do. Big-city slum-dwellers do not have this freedom of choice. They are denied a full range of opportunities in education, jobs, and housing. Mainstream Americans take those opportunities for granted and slum-dwellers know this. They know how the more prosperous half lives and they aspire to the same way of life. The fact that they cannot achieve this way of life is a source of much of their anger and bitterness.

We on the Commission are acutely aware, even more so than when we first met in January 1967, that this report itself will not change a slum or build a single unit of adequate housing. But a report can move people and government to action, action specifically designed to change a slum.

*From a cottonfield in the South, big cities look like the only chance left to the rural poor, but city slums become prisons for the disinherited when they arrive*

The tide of migration from the rural South into the big cities lies at the heart of many of our urban problems today. In the 1950's Arkansas, West Virginia, Mississippi, and South Carolina lost more than one-fourth of their non-white population, while millions of nonwhites poured into our central cities.

Obviously, underlying the move of both whites and nonwhites from the rural South was the mechanization of farming that has changed all agriculture in the last generation. The most popular speculation concerning the move frequently has been exaggerated: that big-city welfare payments drew in the poor. New York State's welfare payment to a family of four is more than five times higher than Mississippi's payment. It is not enough in itself to support a family although it is far better than what is available in Mississippi. But most experts agree that the real reason behind the migration was just plain gumption. Families with gumption

got up and got out of areas where there were no longer any jobs for them, or where sharecropping and tenancy conditions made holding a job on a farm meaningless.

What attracted the migrants was the gleaming hope of a better life that our bustling industrial complexes have always held out to the poor and the downtrodden. So they poured into our big northern and western metropolitan areas. Many have indeed caught on in city life and we should not ignore that fact. In March 1967, for example, the average Negro family in the metropolitan areas had an annual income of \$5,300, as compared with an average of \$2,900 for those who remained behind in the nonmetropolitan areas.<sup>1</sup> But many did not get jobs and what happened to them was commonly tragic. The able-bodied men often could not find jobs

<sup>1</sup> Negro Population, March 1967. Bureau of the Census Series P-20, No. 175, October 23, 1968. (The corresponding figures for whites were \$8,500 and \$6,500, respectively.)



in the alien culture. To qualify for welfare it was necessary in many cities for the family to break up. Many welfare practices sapped the slumdweller's incentive to find a job and hold his family together. If the father of a family on welfare got a job, most of what he earned was deducted from his family's welfare payments. In effect, he may have been taxed up to 100 percent on his earnings. So he faced a hard choice: Quit the job or abandon his family? Important reforms now are finally being made in such upside down welfare rules.<sup>2</sup>

Starting with slavery, the Negroes' treatment and place in society have had the effect of weakening the status of the Negro male and, therefore, the family life of Negro citizens. And any number of studies have shown that, without the man, the family tends to fall apart.

Of about 8.4 million people now on welfare in the United States less than 80,000 are employable adult men. There are, however, a great many employable adults among the 1,278,000 mothers on welfare, but adequate day-care centers for their children are almost nonexistent.<sup>3</sup> No welfare program in the country has the budget for enough day-care centers to permit all the able-bodied mothers on welfare to earn by working outside the family.

Then, too, if any of those now on welfare are to enter the mainstream, they must be assisted by programs which permit them to learn basic skills and the rudiments of reading, writing, and arithmetic. Our failure to assimilate the non-white slumdweller into the larger society is particularly shocking in light of the fact that we recognize the problems of assimilation for another group of people: Cubans entering the United States are provided—by the Department of Health, Education, and Welfare—medical and psychiatric services, family counseling services, employment counseling services, plus financial assistance. For them, welfare is a national program. For poor American citizens, it is still a State by State or local matter. Before the refugee family moves North, East, or West, efforts to locate jobs, housing and neighborhood contacts are worked out by the staff of HEW's Cuban refugee programs.<sup>4</sup> For the poor American family, few such services are provided.

<sup>2</sup> The year 1968 witnessed two major advances in the welfare field. The Supreme Court in a decision knocked out the "man-in-the-house" rule, applied in 18 states, and the Department of HEW promptly required compliance with the court's interpretation that a family otherwise eligible for welfare aid could not be denied assistance because of the presence of an adult male in the home. Secondly, a job incentive plan was instituted, with a number of states carrying it out on an optional basis before it was to become mandatory for all states in July, 1969. Under this plan, the first \$30 of monthly wages and 30 percent of the remainder are exempted from income taxation. (Many experts urge an exemption of the first \$50 and 50 percent of the remainder.)

<sup>3</sup> HEW data as of March, 1968.

<sup>4</sup> See *Hearings Before the National Commission on Urban Problems*, vol. 5, 1968, pp. 333-46.

The accomplishments of this program for Cubans are outstanding and indicate what can be done once the Nation commits itself to solving a specific problem.

The uneducated and unskilled American rural migrant family needs even greater help than the typical Cuban refugee who arrives here with a good education and with job skills. Yet no institution responds to the massive migration of native rural families moving North, East, and West from the South. It is more difficult to locate and hence to deal with these migrants since they come from thousands of separate sources and go to a myriad of places instead of, like the Cubans, funneling through a few distributing points such as Miami. But more should and could be done to locate, train, and assimilate them.

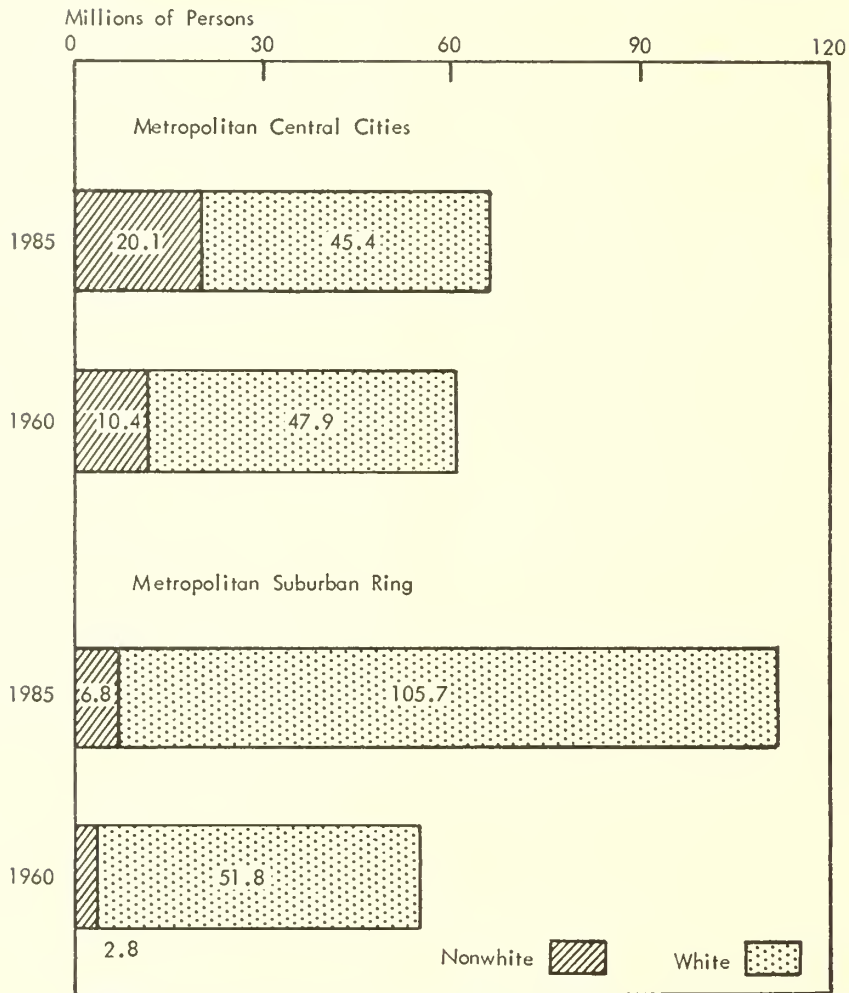
The economic picture for the migrant is often a grim one. Nonwhite slumdwellers live with an unemployment rate that is at least twice as high as for whites. For some groups such as teenagers it amounts to 25 percent or more. Female heads of poor families experience a rate as high as 50 percent. In 1968, the unemployed generally, and especially the jobless Negroes, were concentrated in the Nation's largest metropolitan areas. In some big city slums only half of the adult men have full-time jobs and about one-fifth of those with full-time jobs earn less than \$60 per week.

It is true that real incomes per household in most central cities are steadily increasing, but this is not true in some of the worst slum areas. And the cost of living for the poor often rises faster than incomes. The gap between wages and basic costs for the person in poverty is often astronomical.

Even though Americans below the poverty level fell from 39 million to 26 million in the 8 years from 1958 to 1966, a phenomenal record, we still have a long way to go to close the gap. Available employment of the type for which slum adults might qualify is generally not available in the slum. In a recent year, 63 percent of all construction permits for industrial buildings were issued for locations outside central cities. On the other hand, 73 percent of office building construction permits were issued inside central cities. Central cities increasingly are becoming white-collar employment centers while the suburbs are becoming the job employment areas for new blue-collar workers. This is ironical in view of the fact that low-paid blue-collar workers, especially if they are Negroes, live in the central cities while the white-collar workers are increasingly living in the suburbs. Traveling to work becomes increasingly difficult for both. Whites and blacks, white collars and blue collars, pass each other by as they come and go from work.

CHART I

## Metropolitan Population by Color--Central City and Suburban Ring



## THE PROSPECT OF FURTHER RACIAL SEPARATION

Showing Growth of Nonwhite Proportion in Central Cities  
and of Whites in Suburbs

Source: *The Challenge of America's Metropolitan Population Outlook—1960 to 1985*, by Patricia Leavey Hodge and Philip M. Hauser, National Commission on Urban Problems, Research Report No. 3.

The problem is further compounded by the fact that a slumdweller's dollar buys a lot less for him than it will for the average middle-class American. The American standard of living is inextricably bound to our system of credit. The uneducated and unemployed are more often victims, rather than beneficiaries, of the credit system. Lacking a credit rating, the poor are driven to those institutions which specialize in high-risk loans at a very high cost to the consumer. Then, too, the band of residential segregation around the ghetto, aptly termed the white noose,

coupled with increased immigration and a natural population growth, generates a greater demand for living space—however badly deteriorated or rat infested—at relatively high cost.

Perhaps the most potentially explosive problem we face in our cities is the fact that the increase of nonwhites in central cities is accompanied by just as big a movement of whites from the center city to the suburbs. The result is an almost unyielding pattern of segregation.

For instance, an on-going Chicago survey takes an annual count of specific blocks which

contain more than 25 percent Negro population. In 1950 there were 1,080 such blocks. Between 1950 and 1960 an additional 1,344 blocks shifted from less than 25 percent Negro to more than 25 percent Negro. From 1960 to 1966 1,101 more blocks similarly shifted. Thus the *rate* of transition from white to nonwhite occupancy actually increased from 2.6 blocks per week to 3.5 blocks per week.

Negro isolation could become even more serious than it is today. Projections based on recent experience<sup>5</sup> show that, between 1960 and 1985, central cities could lose 2.4 million or 5 percent of their whites, but gain 10 million nonwhites, a 94 percent increase. This means that nonwhites would move up from 18 to 31 percent of the population of the Nation's central cities.

If the Negroes continue moving into the suburbs at the present rate, their projected number will jump from 2.8 to 6.8 million. But the number of suburban whites will also more than double, from 52 to 106 million. So the additional Negroes will be all but lost in a sea of whites, as their proportional increase will move from only 5 to 6 percent of the total suburban population by 1985.

These are projections, not predictions. They show the direction in which we have been heading, a shift toward greater racial stratification. But we should not fool ourselves that solutions are easy. It will take massive efforts to reverse the past trends and the momentum behind them.

In State legislatures and in the Congress there are strong indications now that the old rural-

city rivalry is being replaced by a rural/suburban-city rivalry. This new suburban and rural coalition until now has significantly limited the ability of urban legislators to change the nature of statutes and programs which affect the central city, and it also reinforces suburban exclusiveness, and the power blocs behind it. This reinforcement, in effect, exacts a subsidy from the central city by imprisoning low-income families and poor families in the central city and sharply limits the dispersion of low-income families to the suburbs.

The overwhelming majority of the future nonwhite population growth is likely to be concentrated in central cities unless major changes in public policies come about. But one searches in vain to find current programs of Federal, State, or local governments aimed at significantly altering this tendency.

Slums in our big cities, which are now in the midst of social decay, may well become social and economic disaster areas.

It is entirely possible that a greater concentration of Negroes in the central cities would be accompanied by an increase in tension and violence. If this violence is met by repressive measures there could be a further polarization of blacks and whites, and the flight of more and more businesses, and therefore, jobs, from the city.

The suicidal consequences that such a possibility suggests are not pleasant to contemplate. They threaten our country.

*Our big cities are hard up, costs of local government are skyrocketing, and representation for the poor in slums is almost nonexistent*

The lowest income groups are attracted to the inner city slums because that is often where the oldest urban housing is offered at the lowest rents. It needs to be stressed that the weekly rents are often low only because so many people are crowded into such small and poorly equipped space; figured on a per house or per room basis, or as a percentage of investment, the rents received by the owner may be quite high indeed.

The concentration of low-income families places an inordinate burden on each central city to provide welfare services, expanded police protection, and other costly public services. Yet the departure of many middle- and upper-income residents and many industries to the suburbs weakens the central city tax base. The conversion of neighborhoods from middle-income and low-income occupancy, which occurs when slums expand, also reduces the prosperity of re-

tail businesses, thereby further depressing the local tax base. So center cities experience a sharp rise in demand for revenue at the same time that their ability to produce revenue is either static or declining. The result can be, and sometimes is, death for a neighborhood or the slow strangulation of the city itself.

City services cost money. In 1962, the per capita expenditure of local governments averaged one-third more in metropolitan areas than elsewhere. However, the main reason for higher public expenditure in cities is that urban life requires public provision of some services that, under rural conditions, need not or cannot be supplied, like street cleaning, and public sewerage systems. Also cities call for increased intensity of other kinds of public services such as fire protection.

Percentage ratios of per capita expenditure show four functions—public housing and urban renewal, nonhighway transportation, refuse col-

<sup>5</sup> Patricia Leavey Hodge and Philip M. Hauser, *The Challenge of America's Metropolitan Population Outlook—1960 to 1985*, National Commission on Urban Problems, 1968.



lection and street cleaning, and parks and recreation—for which spending is over 200 percent higher in metropolitan areas than elsewhere. In three functions—police protection, fire protection, and sewerage—the urban level averages from 100 to 200 percent higher. Public welfare, libraries, water supply, health and hospitals, and interest on debt show the urban level averages from 35 to 90 percent higher. Only metropolitan-area spending on streets and highways is well below local public per capita expenditure elsewhere for this purpose.

Urban government expenditure is now running at an annual rate of about \$370 per capita, or about one-tenth as much as the average per capita income of metropolitan area residents. In the 20 years following World War II local government expenditure increased 571 percent, or at a much faster rate than gross national product (up 259 percent). Metropolitan areas account for nearly three-fourths of all local public spending.

More than 40 percent of urban government spending is for education—mainly for elementary and high schools, but including some expenditure for local colleges and junior colleges. Social welfare functions take about one-sixth of the total and about one-tenth goes to water supply and sanitation, a tenth to highways and other transportation, and a tenth to police and fire protection, with all other urban expenditure making up the remainder.

Local taxes provide about one-half of all the funds needed to finance urban government services, with the balance supplied by intergovernmental revenue and local nontax sources, such as service charges and benefit assessments. Our 38 largest metropolitan areas, with 41 percent of the Nation's population, account for about one-half of all local government finances. In 1966, local government revenue in these 38 areas averaged \$351 per capita, or 44 percent higher than in the rest of the country. Direct Federal grants made to urban governments are not yet major revenue sources. While these grants have been rising rapidly, the 1962-66 increase in Federal aid to the major metropolitan areas accounted for only \$346 million of the added \$7.8 billion of annual local government revenue. Local property taxes provided \$2.7 billion of that increased revenue.

The property tax is the largest single source of urban government financing. Property taxes are widely criticized because they are so regressive, inequitably levied and poorly administered in almost every municipality in the United States. Even so, in response to needs, the property tax yield has been rising strongly. Nation-

wide, State-local property tax revenues in 1967 totaled \$27.7 billion—against \$19.1 billion 5 years earlier—with metropolitan areas accounting for about three-fourths of the total.

Slums are expensive to city administrations. Normally, their costs reflect high welfare, police, and fire department activity. In other services, such as schools, garbage and trash removal, snow removal, street surfacing and repair, replacement of old and inadequate water and sewer lines, the slums, where additional expenditures are badly needed, are usually on the bottom of the priority lists (if they manage to get on the list at all) in competition with other city neighborhoods.

Large cities have great problems of keeping the streets clean, but in the slum neighborhoods sanitary conditions generally are intolerable. Practically all can be characterized by junk and garbage-filled lots, abandoned cars, broken bottles, and scattered debris. Whether this is the fault of the city, of the landlords, of the tenants, or of people from other neighborhoods who use these neighborhoods as their dumps is a futile argument. All are involved. No one group can really solve the problem without the cooperation of the others. Too often the people living in a block try to spruce it up but get discouraged because the city or the landlords do not do their part. City sanitation departments similarly become indifferent if their genuine effort produces little visible difference.

A common characteristic of an evolving slum is a mixture of land uses not conducive to a neighborhood of homes. One small neighborhood we saw in Philadelphia had seven junk shops, two slaughterhouses and 10 bars within its boundaries. Planning often fails to weed out such land uses. Many "nonconforming" uses, recognized as incompatible to an area, are permitted because they existed before residential zoning began. Others, although disallowed under a zoning plan, creep in as "variances," the planning term for exceptions to the rules. Most cities require that a notice be posted for a number of days prior to a hearing for the issuance of a zoning variance. Perhaps no one in the neighborhood understands the meaning of the notice, or if the notice is understood, the loss of a day's pay to protest the granting of a variance is generally considered too high a price to pay for being a good citizen. The unemployed members of slum communities conceivably could attend the hearings but they lack experience and the respect from officialdom to accomplish much in this field. So the hearing proceeds without effective local opposition, usually re-

sulting in the granting of the variance. Variances and nonconforming uses help mightily to create and perpetuate slums.

The problems raised by all of the foregoing are monumental and basic. Take the lack of fiscal resources, political representation, and general neglect in slum areas. Couple those facts with the middle class moving to the suburbs

and a new rural/suburban political coalition. All of those facts could hasten the time when the only strong voice that would speak for the slums would be the Federal Government, at best a distant and indifferent parent. And that voice would be represented in Congress by an even smaller percentage of representatives than the slums have today.

*Coping with metropolitan area problems is incredibly complex because of the proliferation of local governments, all with differing viewpoints, within those areas*

Right after World War II, middle-class America accelerated its flight to the suburbs so fast that thousands of square miles of farmland were turned into housing developments virtually overnight. The pace of that rush has not yet noticeably slowed. To serve the urban needs of this new suburbia, new units of local government were created by the thousands. These included more than newly incorporate rural villages; they included all kinds of special districts to provide schools, garbage collection, water supply, street lighting, sewage treatment and the like. If all these units of government were laid out on a map, every metropolitan area in the country would look as if it had been "non-planned" by a mad man. These crazy-quilt metropolitan areas actually are the work of sane human beings, well-intentioned in their work, but often reaching for the easy, expedient, and politically popular solution.

The U.S. Bureau of the Census defines a metropolitan area as "an integrated economic and social unit with a recognized large population nucleus." As of 1967, the Census Bureau recognized 228 such areas in the United States. They are called "standard metropolitan statistical areas" or SMSA's. Generally, an SMSA consists of one or more entire county areas, primarily nonagricultural and closely related to a central city, or cities, of 50,000 or more. (In New England, SMSA's consist of groups of cities and townships rather than of entire counties.)

Nearly two-thirds of all Americans live in metropolitan areas. Slightly less than half of all metropolitan area residents live in the central metropolitan cities, but most of the increase in SMSA population is taking place in the outlying-ring territory, suburbia.

In 1967, our metropolitan areas were served by 20,745 local governments, or about one-fourth of all local governments in the Nation. This means 91 governments per SMSA—an average of about 48 per metropolitan county. But these averages cover great variations. There are 20 SMSA's with fewer than 10 local governments each—13 in the South, five in New England, and two in the West. At the other ex-

treme are such SMSA's as Chicago, with 1,113 local governments (186 per county); Philadelphia, with 871 (109 per county); Pittsburgh, with 704 (176 per county); and New York, with 551 (110 per county).

The overwhelming majority of these local governments are relatively small. For example, two thirds of the municipalities in SMSA's have a population of less than 5,000 and one-third of the total number have fewer than 1,000 residents. Similarly, of the 3,225 townships in SMSA's, over two-thirds have a population of less than 5,000. Most of the SMSA special districts also involve only small-scale operations. Of all the school districts in metropolitan areas, about one-fourth have fewer than 300 pupils, and about one-third operate no more than a single school.

In physical size many of the local governments in metropolitan areas are extremely small. Of all the municipalities in SMSA's, about one-half have less than a single square mile of land area, probably 60 percent are smaller than 2 square miles, and four-fifths have a land area of under 4 square miles. Fewer than 200 SMSA municipalities include as much as 25 square miles of land area.

Most residents of metropolitan areas, then, are served by at least four separate local governments, i.e., a county, municipality, or township, and a school district, plus one or more special districts. The average SMSA central city has more than four overlapping local governments.

The abuses that such a multiplicity of governments works on a metropolitan area are many, and we need not list them all here. One is the discriminatory zoning that suburban towns adopt. Zoning, which is barely a body of law, very effectively keeps the poor and those with low incomes out of suburban areas by stipulating lot sizes way beyond their economic reach. Many suburbs prohibit or severely limit the construction of apartments, townhouses, or planned unit developments which could accommodate more people in less space at potential savings in housing costs. Even where apartments are allowed, they often are limited as to size of dwelling unit, effectively keeping out families



with children who would presumably place a burden on school budgets. Zoning is also used by most suburban areas to keep out blue-collar industry which could go a long way in providing the types of jobs low-income people could take if they could afford to live in the suburbs.

Another bad effect of too many local governments comes from their competitive scramble to attract industry. To support faltering local economies, communities often put industrial plants in places where, according to sound planning, they do not belong. The favors held out to bring in industry then make it possible for companies to avoid their fair share of the metropolitan area tax burden.

Still another abuse is excessive strip zoning along main thoroughfares, sometimes used to increase the tax base with commerce. The resulting gaudy development is a major offender in urban ugliness.

All of the foregoing raises the question: How many local governments would there be in metropolitan areas if it were somehow possible, in each SMSA, to replace existing arrangements by a set of comprehensive units, each responsible for providing all local public services for its own defined territory and each serving a population of at least 50,000 persons?

Such an arrangement can be tested by reference to 1960 population figures for the 228 SMSA's as defined in 1967. On this basis, the metropolitan areas altogether would have approximately 1,300 local governments, or an average of less than six per area as compared with the present average of 90 per SMSA. If thus reorganized, about one-fourth of the SMSA's would each be served by only a single local government, and nearly as many by two local governments apiece. At the other extreme, this approach would involve more than 30 governments for each of seven very large metropolitan areas—58 for the Los Angeles-Long Beach SMSA (instead of 223); 55 for the New York SMSA (instead of 551); 52 for the Chicago SMSA (instead of 1,113); 46 for the Philadelphia area (instead of 876); 38 for the Detroit SMSA (instead of 242); 37 for the Pittsburgh SMSA (instead of 146).

Unless local units are large enough to function well, it is almost certain that the demands for better services will cause power over local affairs to be shifted to higher levels. This is not theory, but simply a statement of political fact that has been observed many times over the past generation. We should weed out many of the unnecessary, overlapping layers of local government, especially the very small units and special districts.

While we strongly favor consolidations to form larger city governments and would offer

revenue incentives to political jurisdictions with 50,000 people or more in major urban areas, we should not overlook the counties. County governments have a largely undeveloped potential for handling many urban matters. This is understandably overlooked or flatly denied in many parts of the country because most counties still stick to obsolete procedures and programs. But they do cover broad geographical areas. They embrace substantial populations—whole cross sections, not just narrow interest groups. And they draw from a tax base spread over a whole spectrum of land uses. These advantages explain why a few urban counties already are taking the lead in restoring a unified approach to metropolitan affairs. One lesson is that counties must modernize if they are to exercise leadership on the local scene. At present they are a very weak reed, indeed. They do have a much greater potential.

A big key to the success of revising, enlarging, and rationalizing local boundaries is held by the State legislatures. Local governments can hardly be expected to do this by themselves; their lack of objectivity and perspective in these matters is one reason the urban areas are in such trouble already. Although many State legislatures have been indifferent to city problems, they have authority to cure many urban ills.

Recent metropolitan reorganization efforts have experienced more setbacks than successes. Public apathy has been more prevalent than outright opposition. In the record of attempts at a significant restructuring of local government in metropolitan areas—the handful accomplished as well as the unsuccessful efforts—one feature stands out: each was primarily a local undertaking, initiated and pursued uniquely in the areas concerned, even though basically authorized by State constitutional or statutory provisions and sometimes involving some specific State action. Because each metropolitan area has its own particular problems and attitudes, major structural changes should be tailor made by local people.

Councils of governments in various places around the country are making genuine progress in giving local government a new perspective. Some students of government say that the councils do not move us along as swiftly or as far toward metropolitan government as they believe necessary. The fact is, however, that really comprehensive mergers will take a great deal of time. Meanwhile, many areas, spurred by Federal incentives, are combining metropolitan services, saving taxpayers' dollars, learning to work together, and developing loyalties beyond their own backyards. Councils of government should not be used as a sedative, however, to lull the public into indifference

about consolidation of governments when that is needed.

Can a restructuring of local government, at the scale required, ever be done? The answer we believe is a highly qualified "yes." The need for change is too urgent to permit complacency on this score.

As one of the Nation's most thoughtful students of these matters said recently:

America's great urban regions lack the powers to guide their development. They cannot decide the use of their most precious commodity—open land; nor prevent the fouling of their air and water; nor assure equality in opportunity and education for their children. Until they have such authority—until suburb and central city acknowledge in these specific respects their common concern—we can blanket the present array of local jurisdictions in a blizzard of Federal cash and still fail to protect our urban heritage and upgrade our urban environment.<sup>6</sup>

*Those most likely to live in substandard housing are the poor nonwhites who have big families and are renters. But they are not alone. A third of our affluent Nation cannot afford adequate, nonsubsidized housing today, despite great gains in our housing stock*

Most measures of substandard housing include not only dilapidated housing but also standard or deteriorating housing with inadequate plumbing. Estimates of housing need in addition must take account of overcrowding or what might be called substandard occupancy, when the number of people in a household outnumber the number of rooms. (Bathrooms and closets do not count as rooms; kitchens do.) But as our report frequently emphasizes, we consider these measures inadequate, leading to a gross understatement of the Nation's housing needs.

Decent housing has a far more subjective definition. Almost no agreed standards exist for measuring what is decent housing, which is why the Commission proposes a system for arriving at useful standards. Definitions will change, of course, as the standards of living and expectations rise. For middle-class Americans at the end of the 1960's, decent housing implies a high level of amenity, both in the house and within its immediate environment, a level of amenity none of the rest of the world, outside the rich, enjoys in its housing.

To meet middle-class aspirations, decent housing may mean, for instance, enough bathrooms so there are no morning lineups as the family gets ready for work and school; uncrowded bedrooms; and a kitchen with a sink, range, oven, refrigerator, counter space, and outlets for portable appliances. Many even would include as minimum requirements dishwashers, clothes washers and dryers, garbage disposals, and, in areas of hot climate, air conditioning.

How do these governmental issues relate to the problems of poverty, segregation, and civil rights, so explosively reflected by recent unrest and disorder in many cities? To oversimplify a complex question, it takes financially strong and structurally sound local governments to deal fairly and firmly with these social problems. The Commission was impressed by the number of highly motivated, conscientious local officials; but these officials often are ineffective because of the economic weakness and splintered authority of their local governments. Even worse, in other cases, the existing governmental patterns contribute to conflict and social discontent. So the growing public concern about the urban crisis should help overcome the apathy that often characterized efforts to modernize local government.

Even such housing does not meet many people's idea of what is decent unless, in the neighborhood, there is recreation for children, shopping, and public transportation. Cultural or entertainment facilities within easy reach, trees, grass, flowers, and other features that make a neighborhood pleasant and livable are expected. In short, the house that is adequate in itself ceases to be adequate for the middle-class family when dropped in the middle of a slum or otherwise unsuitable surroundings.

On the other hand, the world of a slum child is a world of substandard housing, often without plumbing or heat, infested with rats and insects, and so packed with many more people than there are rooms that a child is happy to live on the streets all summer.

There are today at the very least 11 million substandard and overcrowded dwelling units in the United States. This is 16 percent of the total housing inventory. According to the census, three-fifths of all that substandard housing is said to be in rural areas—generally on farms and in towns of less than 2,500 persons. Thirty-six percent of all rural housing is substandard, compared with estimates of 10 percent of all urban housing. These are highly conservative figures. And they not only greatly understate the problem but tend to mask the critical aspect of the urban housing problem—the *concentration* of substandard housing and of poor people.

In metropolitan areas there are about 4 million substandard and overcrowded units. Almost that many more are so deteriorated they need constant repair. Another several million have serious code violations. Recent surveys in some inner city slums indicate, instead of improve-

<sup>6</sup> Under Secretary Robert C. Wood, Department of Housing and Urban Development, from a speech on October 24, 1968.



ment, a deterioration in this inventory. Not all of the people in these houses are poor. Many have moderate incomes—between \$3,500 and \$6,000—and are trapped in inadequate housing because there was no decent housing within their ability to pay. It should also be noted that just as all who live in bad housing are not poor, neither do all poor people live in bad housing.

In some places, there is a steady increase in substandard housing. In New York City, for example, the number of substandard units has risen since 1960. However, it is not only the size but the concentration of substandard urban housing which is the problem in city areas. In cities where the *general* average for substandard overcrowded units is only 10 percent, 40 percent of the housing in slum areas may be deficient.

Most important, poverty families in substandard housing have a high correlation with race. If you are *poor* and *nonwhite* and *rent* the chances are three out of four that you live in substandard housing.

To use another measure, 45 percent of all nonwhite *owner* household families had incomes of \$3,000 or less or were poverty families. But these poverty families occupied 72 percent of the substandard, nonwhite, owner-occupied housing.

A similar but even bleaker picture was true for the nonwhite *renter*. Nonwhite households occupied a third (32 percent) of the Nation's substandard rented housing, although they made up only 16 percent of all rented households. If one were nonwhite and poor, the gap widened even more. Sixty-two percent of poor nonwhite families were in substandard rental units. Only 35 percent of poor whites were living in substandard rental units. Almost 60 percent of all nonwhite renters were in the poverty income class in 1960. But they accounted for 75 percent of substandard housing which was lived in by nonwhite renters.

A seven-city Commission staff study showed that there were 103,000 large poor families in the seven cities who could not afford to rent standard housing of a suitable size at market rents. In these seven cities only 20,000 units with three or more bedrooms in publicly assisted housing of any kind was available to these families. The gap between the need and the units available was, therefore, 83,000 units, or over 80 percent. For the large poor family that also was nonwhite, the chances of escaping substandard housing were even more difficult. It is fair to conclude that one of the most desperate urban needs in the country is housing for the large poor family.<sup>7</sup>

In public housing, for a given amount of money, more units can be produced by building efficiency or one- or two-bedroom units. This fact explains, in part, why from 50 to 60 percent of all public housing units in recent years have been built for the elderly. From a bureaucratic point of view, the ability to list a housing unit for two people as equal to that of a housing unit for six or eight or 10 people, is one reason why such a large proportion of public housing is made up of smaller rather than large family-sized units. This has been a grave mistake. Besides the initial cost, many factors enter in the decision to build small or large units. This is seen in private as well as public housing. Larger units mean more kids, more maintenance problems, less tranquil apartments or neighborhoods, more local school costs, and usually more poverty. The decision to build small units unfortunately may have racial overtones as well as fiscal.

It is widely held that job programs, training programs and other anti-poverty programs will help increase the purchasing power of urban residents enough so that they can get their own housing without subsidy. Useful as these programs may be, the present level of funding for them is a relative drop in the bucket when measured against the actual need. In our big center cities where the need for job programs, higher incomes and better housing is greatest, the arithmetic of this need is staggering.

New multifamily housing, appropriate for some big cities, costs from \$17,000 to \$22,000 a unit, even with an urban renewal land write-down. Translating costs into rent, a \$20,000 unit even with heavy subsidy, requires payments of roughly \$150 a month. That figure would include maintenance, operating costs, interest (subsidized to a few points below market) and amortization (term up to 40 years), assuming a property tax abatement of about 50 percent and a two-thirds public writedown of the land cost.

Yet half of the low-income families in the slums can afford to pay only \$65 to \$110 a month, or \$780 to \$1,320 a year, for rent. And the other half cannot afford more than \$35 to \$60 a month, or \$300 to \$720 a year. The cities with their critical fiscal situation require higher taxes almost every year just at a time when the slum areas need the greatest tax abatement and subsidy. In the light of such considerations, to expect the free market to supply housing for all Americans without subsidy requires a flight from reality. We have to turn to government at every level to help finance an adequate supply of minimum standard housing, especially in the inner cities.

<sup>7</sup> Smart, Rybeck, Shuman, *The Large Poor Family—A Housing Gap*, National Commission on Urban Problems, 1968.



Misconceptions frequently obscure the problem of supplying decent housing, such as the notion that housing low-income families will take care of itself by the trickle-down or filter-down principle. This has it that as people move up the economic ladder, they leave behind them dwelling units which people moving up the ladder behind them can occupy. At the end of that chain of transferring residences, the poor in theory are provided with an inventory of available, lowest cost housing. Undeniably the trickle-down theory does work for part of the population, but it falls short of supplying enough housing for low-income families principally because: (1) the availability of the lowest cost housing is not always where the poor can get to it, and because (2) so much of the cheapest available housing is substandard, that is, lacking indoor plumbing and hot water, badly deteriorated, or overcrowded. In all conscience, housing that may have been suitable for one family cannot be counted as suitable when three or four families are sardined into it. Virtually all shum housing is filter-down housing—which is proof enough of its inadequacy.

In order to break the back of our minimum housing needs by 1980, we calculate that the Nation should build 2 to 2¼ million new housing units a year. That compares with the rate over the last 6 years of an average of 1.45 million (not counting mobile homes). In only 1 year, 1950, since the end of World War II have we even approached the rate of 2 million units a year. We are clearly dragging our feet.

Just building new housing at a certain rate is not enough. To make sure that the people who are now left with no alternative to sub-

standard housing get relief, we feel it is important to specifically reserve 500,000 of the new housing units for people in the lower income brackets. We think a fair breakdown would be to designate 100,000 a year for the abject poor (incomes up to \$2,200 a year for families of four); 100,000 for the poor (incomes up to \$3,300); 100,000 for the near poor (incomes up to \$4,500); and 200,000 units for families with incomes over \$4,500 but who still cannot afford to buy or rent decent housing in the private market. In short, the increased housing over the present level of production should go to those who need it most.

We cannot pretend that this half million units of added housing over current production can help many of the poor unless there are subsidies to bring rents or sale prices down. Society must face up to this. But the amount of the subsidies can be reduced to the extent we find ways to bring down the costs of housing.

At present, subsidies are needed so the lower economic middle class can afford adequate housing. By reducing housing costs appreciably, so that the average family of four earning \$6,000 a year could afford decent housing in the private market, then the upper limit requiring some subsidy could be brought further down the income scale. The main thrust could then be aimed at the really poor.

An important byproduct of building more dwelling units will be increased jobs—about 165,000 a year to construct the homes and about 330,000 a year in related supplier industries. These combined new workers could make a big dent in urban unemployment, especially among the young and minority groups.

*Segregation has been a complex problem nagging at America for years. Foot dragging at all levels has not helped. The problem remains critical*

Segregation has been a fact of life in America for 300 years. While we make no pretense of having studied it exhaustively nor to having any unique insights into the problem, we cannot fail to mention it here.

The institution of slavery and its aftermath which we have inherited has poisoned relationships between many whites and Negroes. And the past pressures for racial separation were reinforced by complex cultural, social, and economic factors.

A commonly observed pattern in America has been the initial more or less voluntary flocking together for mutual protection and fellowship of migrant peoples of various ethnic, religious, and other ties in preference to venturing into a mixed, integrated society.

The traditional American hopes and attempts of the individual to rise to new stature without

being bound to one's beginnings often lead to social exclusiveness. Many people try to reassure themselves that they have indeed achieved new heights by physically escaping from and then rejecting their origins. The white well to do exclude the middle class, and the middle class exclude the poor. Some Negroes who struggle to rise economically exhibit this characteristic, seeking to exclude poor Negroes from their neighborhoods, just as whites do. White middle and upper classes have been particularly anxious to keep out the black poor.

Prejudices are harder to erase when people are insecure about their jobs and status. Large numbers of Negroes have educated and prepared themselves to compete in most fields. But some whites fear that the trained Negro cannot be absorbed without threatening their jobs. Racial contempt, open or concealed, is encour-

aged by the resulting economic friction. Whites who try to keep their neighborhoods segregated often disguise these feelings, claiming instead that Negroes and the poor will lower property values, overtax the schools, and invite delinquency or crime.

Actions and attitudes of the whites inevitably create reactions within the black community. The result has been a tendency for society to become polarized, and by income group as well as by race. But the answers are enough jobs and enough housing for all. As the late President Kennedy often remarked, a rising tide floats all boats.

Elected officials at all levels found it hard to stand up against the prevailing pressure for segregated neighborhoods. Those at the Federal level were no exception. For years they made little effort to resist the pressure. They closed their eyes to the massive federally supported buildup of largely white suburbia in the period following World War II. In the North and in the South, reflecting dominant moods of the times, the Federal Housing Administration would not insure any mortgage where a black family bought a home from a white. It may fairly be charged that in line with the prevailing general attitude, Federal funds were so used for several decades that their effects were to intensify racial and economic stratification of America's urban areas.

Much of this was due to the emphasis that housing legislation placed on local control. When the Federal Government during the depression era became involved in housing and other matters affecting the general welfare, the stress was on stimulating the economy. And local control became a guiding principle. The Federal Government in the 1930's began to build housing for poor people, using its power of eminent domain and contracting directly for construction. But this gave way to an indirect approach: Federal subsidies to local housing authorities which had the full responsibility for site selection and operation, including racial policies.

Local control again was embodied and carried forward in the landmark Housing Act of 1949. The limitations on Federal action, as spelled out in the Senate report on that bill, stated that Federal assistance for clearing slums and blighted areas, under the bill, "shall be available only for projects where there has been a local determination by the governing body of the community that the project is needed and where the plans for such project are locally made and locally approved. This bill incorporates the basic philosophy that if the people of a local community take no interest in that com-

munity's housing problems, it is not for the Federal Government to impose a program upon them." If the fathers of housing legislation preferred more Federal muscle, the bow to local determination often was the only way to get their bills through Congress.

To recognize this emphasis on local control is not to say that Federal officials were powerless to alter the racial policies alluded to, or that they could not have prevented the abuses, for example, which led urban renewal in some places to be called Negro removal. The Federal administrators still controlled the funds and, in distributing them, they had the right and duty to insist that legislative purposes were adhered to locally. The purpose of the 1949 Housing Act, for instance, included assistance both for slum clearance and (what tended to be overlooked locally and federally) for low-rent public housing.

If the Federal bureaucracy often tended to be timid and to lack a robust faith in the programs and policies it was supposed to administer, the congressional pulling and tugging over these controversial issues, between the legislative committees, on the one hand, and the appropriations committees, on the other, did not help. It weakened the will of the Federal bureaucracy. Not only in public housing and urban renewal, but also in rent supplements, leased housing, non-profit housing, and many other programs, these unresolved issues raged.

Top housing officials and recent administrations certainly have thrown themselves wholeheartedly behind freedom of choice in housing. The majority in Congress, by outlawing segregation in public facilities and insisting on equal opportunity in the use of Federal grants, put its weight behind a desegregated America. By the Open Housing Act of 1968, it prohibited discrimination in the sale and rental of housing.

The real test—whether or not these prescriptions actually will be carried out where people live—is yet to come. Because the Commission believes that evil days will fall upon the country if segregation policies are not wiped out, we present many recommendations aimed at reversing the past trends. We believe in the long run that the good sense and innate decency of the American people will triumph. We are encouraged by the socially minded groups and individuals who are struggling to create and maintain desegregated and integrated communities. We find indications that there probably are more persons who believe in freedom of choice and genuine democracy than is commonly believed. Major segments of society, ranging from the religious leadership to the business leadership, are attacking the problem with new vigor.



A story that should not be forgotten in these times is that in the past the American city had progressed a long way toward a balanced community, with people of many origins and occupations and wage levels living in the same neighborhoods, sending their children to the same schools, and working in the same sections. The city was the melting pot. And to many, the

people living in these neighborhoods seemed far less burdened by the fears and phobias that haunt some citizens who today take such pains to wall themselves off from all shades of differences.

Putting our Nation back on the right track will not be easy. The difficulties are great. It is a struggle for the soul of America.

*Over the years accomplishments in subsidized housing are extremely inadequate. The Nation in 30 years of public housing built fewer units than Congress, back in 1949, said were needed in the immediate next 6 years*

One might suppose, after years of talk and controversy over public housing and the more recent species of subsidized housing, that by now the Nation would have managed to produce a sizable quantity of housing units for low-income families. The record, unfortunately, is to the contrary.

Public housing, after three decades, has produced a total (including preliminary totals for fiscal year 1968) as follows:

Completed public housing units----- 667,000

The rent supplement program, since 1965, has produced an amount of housing (as of June 1968) as follows:

Rent supplement units completed----- 3,000

The below-market interest rate program, variously known also as the nonprofit, limited dividend, and 221(d)(3) program, aimed at low- and moderate-income housing (but, in fact, producing essentially for moderate-income rather than for low-income persons), has produced a total amount of housing, as of June 1968, as follows:

221(d)(3) housing units completed----- 52,000

While the rehabilitation housing programs do not add new units, they do help move units from the substandard to standard category. The rehabilitated units completed, as of June 1968, were as follows:

Completed rehabilitated housing units----- 75,000

Additional senior citizen housing, through fiscal 1968, producing housing (under the 202 program) as follows:

Senior citizen housing units----- 21,000

Not only has there been too little public housing. What has been approved has taken too long to get built. Our studies show that public housing has taken from 3 to 4 years to move to completion, with some 47 steps over an average 308 days just to move from the inception of a project to contract publication. Similarly, with the 221(d)(3) projects for moderate-income housing, delays have been costly and discouraging. It took an average of 376 days from the time

of the original applications just to the start of construction. The urban renewal delays have gotten more public attention because the large city areas vacated and then allowed to sit idle have been so noticeable. Renewal projects on the average have taken from 6 to 9 years to complete. Due to the action of President Johnson's joint administrative task force, the times for original processing have been cut very markedly.

The completion figures cited above do not give the whole picture. They do not include housing units "in the pipeline," that is, those for which applications have been approved, money reserved, contracts let, and construction started. Nobody, of course, is living in a housing "start," and admittedly one of the gnawing complaints about Federal housing programs over the years has been the long time it took for many of the projects to become ready for occupancy.

Without analyzing the pipeline in great detail at this point, one aspect is so encouraging it bears underscoring:

The past year or two, during the time when this Commission was holding its hearings and making its studies, the Federal Government's record in the number of housing units started saw *tremendous improvement*. In fiscal year 1968, the starts of 221(d)(3) housing were double those of the previous year; the rent supplement starts were about four times the number of all units previously built under that program; the leased housing, which had barely gotten off the ground, jumped to a respectable number, and low-rent public housing (new construction) witnessed a big leap forward—almost 50 percent. The statistics provided by HUD for fiscal 1968 starts include the following data:

	<i>Unit starts</i>
Public housing construction-----	46,000
221(d)(3) -----	43,000
Leased public housing-----	19,000
Rent supplement construction-----	12,000

The units begun in 1968 are the largest number started since the early 1950's, or for almost

two decades. The Johnson administration deserves credit for the major effort reflected by these figures. In addition, many of the changes in policy urged by individual members of the Commission during its investigations and hearings around the country have been ordered through administrative action or new legislation. The major thrust of urban renewal in the future, for instance, is to be on housing for the poor, often neglected in the past. If the provisions of the 1968 Housing Act, many of them initiated by HUD and the administration, are faithfully carried out, there will be additional aid for large poor families, increased tenant services, better management, greater freedom in design, and limitations on the indiscriminate use of high-rise construction for family housing.

Speedups in processing, seed money for moderate-income projects undertaken by nonprofit groups, and financing for ghetto area housing are among other HUD changes or recommendations. All in all, at the prodding of the top echelon, major improvements have brought a quantum jump in the momentum of housing programs. But their work and the national welfare would be ill served by concluding that the Federal housing assistance program is anywhere close to its goals. Only continued and increased momentum in the direction so recently begun will make a real dent. To date, the total amount of public and publicly assisted housing actually produced has been far short of the needs. A grand total in the neighborhood of 1 million housing units is too small. To grasp the insignificance of this amount, consider it in the light of a few other facts:

Demolitions of housing by public action alone destroyed more units of housing than were built, in all federally aided programs.

The total current housing inventory is about 68 million units.

The annual rate of all new housing construction, private and public, in recent years has been less than 1.5 million units.

A conservative estimate of the substandard and overcrowded housing is 11 million units.

The small amount of public housing produced for America's poor families is particularly disappointing in view of an earlier national goal. Congress, in the Housing Act of 1949, agreed that the country required 135,000 new public housing units a year for the next 6 years, or a total of 810,000 units. We have not produced that much in 30 years of public housing. Since proclaiming that goal in 1949, we have produced only about 500,000 units, or two-thirds of the 6-year goal in 20 years.

Low-income housing, unlike urban renewal, for instance, so far has never enjoyed the wholehearted combined support and power of the pri-

vate and public sectors. Yet new efforts to accelerate public housing have been made: (1) the turnkey approach lets the private sector produce public housing, which is then sold to a local housing authority; (2) existing housing may be purchased for public housing use; and (3) standard private housing may be leased for public housing. While these three programs are fine in concept, their impact in total numbers remains slight.

Until 1961 none of the FHIA-insured housing programs provided subsidies to lower interest rates. The effect of the FHIA guarantee to mortgage lenders was to reduce the price of financing; to that extent, it was a form of subsidy to the home buyer. FHA's programs for rental housing in urban renewal areas for housing displaced persons called for waiving the traditional "economic soundness" requirement, but rents and carrying charges still reflected payment of full market interest.

The Housing Act of 1961 established a below-market-interest-rate program to stimulate production of housing for moderate-income families. The move also was greeted as an answer to low-income housing, but it virtually ground to a halt in this respect. Holding the program back were these aspects: (1) nonprofit sponsors often lacked know-how and seed money to successfully initiate and carry out projects, (2) limited-dividend corporations did not look with favor on the 6 percent allowable profits when they could anticipate 12 percent elsewhere, and (3) extended processing time because of redtape, complexities, and bottlenecks in local and regional FHA offices. These processing times too have been greatly speeded up since the President's joint administrative task force reported on this problem.

The rent supplement program came into existence in 1965 and was tied to section 221(d)(3) at the statutory FHA interest rate plus a mortgage insurance premium of half of 1 percent. Only 5 percent of the rent supplement funds could be paid to below-market-interest-rate projects under 221(d)(3), together with another 5 percent for direct loan projects for the elderly under sections 202 and 231. Rent supplements immediately ran into trouble in Congress. As a result actual appropriations were only \$30 million in the first 2 years of the program although legislation had authorized payments of \$65 million. The rent supplement program got off to a slow start, but we anticipate better results in the years ahead—a hope based on performance reflected in the 1968 starts.

The numbers, rules, and regulations of the myriad FHIA programs are confusing to say the least. What is not so confusing is that they have added up to very little assistance to the



large numbers of people who so desperately need subsidized standard housing.

More noise and thunder will not overcome the Nation's poor showing. Government assistance programs will not work unless some way can be found to further reduce and ultimately eliminate the time-consuming rules and procedures that confront—and frustrate—the prospective builder or developer. As an example of strangling redtape, New York City claims it has taken at least 2 years to process the average 221 (d) (3) project—and by that time, costs can rise 10 percent. Furthermore, new programs often overlap and even contradict earlier programs, adding more chaos to the already chaotic machinery of Federal, State, and local governments. What is more, many programs are wrapped in restrictions that can make them almost inoperative. A good beginning has now been made through improved procedures and by such programs as turnkey. The changes initiated by HUD are now beginning to show very concrete results as evidenced by the large increase in starts in 1968.

A popular pastime among government critics has been to pick on FHA for doing too little to help poor people. Most FHA programs were not originally intended to provide low-income housing. At the outset, the agency's purpose in the 1930's was to get money for housing moving again, and this legislative history led to the FHA requirement that mortgage insurance be placed only on economically sound properties. Since it was hard to argue that a slum area was economically sound, slum properties were automatically ruled out.

FHA's traditional reluctance to insure the blighted areas was not simply a matter of inertia as needs changed. It also rose out of conflicts within Congress. One segment of Congress would blast FHA for failure to provide socially motivated housing, while another segment almost gleefully would seek out cases of mortgage defaults and scorch FHA for its radicalism and lack of sober conservatism.

Another problem also plagues FHA's programs: They are too subject to the fiscal maneuverings of the Budget Bureau. Despite a call for action in low-income housing in 1967, the 221 (d) (3) program literally strangled while several hundred million dollars was withheld by the Budget Bureau in the attempt to cool off the economy.

One of the roadblocks to providing standard, low-income housing in areas outside of central cities often has been the workable program. The workable program is a set of requirements which must be adopted and at work in a city or a suburb as a condition for getting certain Federal grants for housing or community facilities from

HUD. Some suburban communities that did not want low-income families simply did not meet workable program requirements. This means that neither private nor nonprofit sponsors can afford to produce low-income housing in those communities because they cannot get the benefits otherwise available for such projects. Workable program requirements, commendable in themselves, certainly were never intended to keep low-income families out of town. As a punishment, this is like telling a boy that unless he polishes his shoes he will be allowed no spinach or castor oil. To be effective, the workable program should be tied to things the cities want, such as sewer and water grants, with communities required to provide low-income housing before they can get the grants.

Fortunately, while not facing this issue head on, the Congress did not tie the new sections 235 and 236 low-interest rate programs to the workable program requirements. Thus, this roadblock will not be a limiting factor for these new programs.

Rehabilitation under various programs has grabbed more headlines than it has produced standard housing. In 1954, public housing was allowed to live only at a greatly reduced rate of new construction. Largely to take its place, the rehabilitation of existing structures was pushed to the fore with the contention that it would avoid the weaknesses of other approaches. The extensive bulldozing of whole neighborhoods and uprooting of families was beginning to make urban renewal unpopular. It was argued that it would be much easier to upgrade existing housing. This would keep the houses in private ownership and avoid all the disturbances which wholesale clearance brought with it. It would also preserve and possibly increase the local tax base and help the cities to meet their financial problems.

Rehabilitation also was represented as being a workable substitute for public housing, avoiding large-scale housing projects which tended to become impersonal.

Along with rehabilitation, emphasis was placed on local building codes, to prevent grossly inferior structures from being built, and on housing codes, to lay down minimum standards of health and decency to which existing housing must conform.

One of the principal things wrong with rehabilitation work is that too many people saw it as the complete answer to too many housing problems. To be sure, it can and does solve some housing problems. Where an area is clearly worth saving, for instance, rehab can do great things for a city. And the economies of massive rehab jobs can bring costs down to between 70 and 90 percent of the cost of new dwelling units.

But 1967's highly touted "instant rehab" job in New York City cost over \$22,000 a unit with only 495 square feet of living space—a grossly excessive sum.

The Commission saw rehabilitation efforts that held great promise and others that seemed poorly conceived, that held little more than empty hopes. But another Presidential group (the Kaiser Committee) was assigned to examine rehabilitation in depth, and we defer to that body for any comprehensive judgment of rehabilitation.

In summary:

Because of the documented desperate housing needs of the poor, which are generally underestimated:

As a consequence of the large subsidies—income tax deductions for interest and property taxes, and grants for suburban development—available to the middle and upper income groups:

As a moral responsibility arising from the fact that public action has destroyed more housing for low-income Americans than it has built:

As a result of the unwillingness of the country in the past to meet even the minimum goals for public housing authorized the 1949 act:

this Nation now has an overwhelming moral responsibility to achieve within the reasonably near future a decent home and a suitable living environment for every American family which it pledged itself to achieve 20 years ago.

We believe this can be done through increased effort and activity at every level of government, and by the private sector.

We foresee a much larger role for communities in providing sites, reducing restrictions, and actively housing the poor.

We advocate an expanded role for the States,

especially where they are willing to contribute funds, in assembling land and housing sites, in fairer taxation and financing, in bringing larger units of government into existence, in providing a more uniform and fairer application of those State police powers, such as zoning and building codes, which they have largely abdicated to even the smallest locality. Zoning and building code restrictions have held back the application of economies of scale and production in the building industry.

We believe that the Federal Government must give housing a much higher priority in its policies than in the past. Yearly housing construction goals should be placed on a par with the goals for employment, growth, and price stability. Housing programs should be funded for a minimum of 3 years and by the least expensive means of subsidy. Economic policies should be followed to bring both a greater volume and continuity of production in the private market and under public programs.

The Federal housing programs should be rewritten, simplified, and improved. There must be a further speedup in processing and in building. We urge that the housing agencies take more initiative to help the most needy localities meet their needs.

Simplified procedures, increased funds, and continuity of programs should also help to attract greater participation by private industry in the task of housing the American people in well-designed and well-constructed buildings.

If all else fails; if the localities do not build; if the States do not expand their role and increase their funds for housing programs; if the traditional housing programs and agencies do not provide a vastly increased amount of housing; then, reluctantly, we advocate that the Federal Government become the builder of last resort.

*Housing costs can be reduced if none of the many avenues for savings is dismissed as inconsequential. Add them all up and they promise to be substantial*

The Commission believes that housing costs can and must be reduced. We believe that substantial savings can be made short of the introduction of revolutionary new systems.

One way this can be done is to attack individual items of costs in housing. No opportunity to reduce them should be ignored simply because, by itself, it may not result in dramatic overall reductions. Significant savings can be made through numerous small reductions.

Costs also can be cut if large-scale or industrialized production is combined with the most progressive existing products or techniques. To do this, we must also remove the barriers to

large-scale distribution brought on by restrictive building codes and practices, subdivision regulations, and zoning ordinances.

We believe that a number of changes in national policy can help to cut housing costs. Government should provide an economic climate which promotes the continuity of housing production. This can be done through creating housing construction goals, carrying out the fiscal and monetary policies to achieve them, reducing the general level of interest rates, funding Government programs at high levels and with continuity over time, shifting the impact of the Federal income tax as it affects hous-



ing to encourage new construction, rehabilitation and maintenance, and to discourage the present practice of deductions for depreciation and maintenance when no maintenance is required and excessive depreciation is allowed; and by emphasizing housing to the same degree that economic growth and full employment have been emphasized in the past.

Costs could also be cut in the Federal programs by subsidizing in the most efficient and least costly methods, simplifying Federal programs and reducing the time for planning and construction.

We strongly urge prompt action on the Proxmire amendment to the 1968 Housing Act—calling for large-scale housing experiments on Federal sites as a test of potential cost savings while adding to the housing inventory.

At the local level, central city housing authorities should be able to lease housing outside their immediate jurisdictions to house some proportion of the poor on less costly sites and in housing which costs less to build than in central city locations.

The proportion which the property tax plays in the overall tax burden should be reduced by a variety of means in order to reduce the tax impact on housing. We believe both the Federal Treasury and the States should explore methods of taxing land value increases so that some proportion of the increase due to population growth and public policies might be recaptured for public purposes.

Costs could be cut by the public purchase of land in advance of development and by leasing rather than selling land acquired by governmental bodies. The States could use their powers to aid in the assembly of land. Removing zoning practices which prevent planned unit developments, and which restrict land supply and raise the cost of site improvements through excessive large-lot zoning, would help cut costs. More objective standards for site improvements and subdivision regulations could also reduce some excessive costs now required.

A major reform in the system of building codes would both permit new and less costly products and processes to be used and could provide uniformity of codes over metropolitan and State areas. The uniformity of codes is the most important step for it can bring greater specialization, mass production, and the reduction of costs. We suggest a series of steps to bring this about.

One of the most important ways to cut housing costs is to combine large-scale production with the most modern existing products and techniques. While new breakthroughs may some

day bring a revolutionary change in the method of building, modern techniques are now widely used. Vast numbers of housing products are factory produced. The fabrication of panels, electrical harnesses and plumbing trees are already done in the factory. Assembly line methods are used both in the factory and on the site by large builders. Entire houses are fabricated in the factory for delivery to the site. If the best methods in the existing state of the art can become more widely used through the removal of restrictions which prevent their more general application, numerous savings could be made.

Among the savings are the reduction in the hours of labor needed and the substitution of industrial for craft labor, in short, fewer hours at lower hourly rates. This must be accompanied by large-scale continuing production both to cover the increased capital costs for the plant and machines, and to induce labor to cooperate through higher annual wages from more secure employment. Additional savings will come because work can thus be done independent of the weather. Costs can be cut through quantity purchases. Time savings should save on financing costs. Builders and professional fees, now paid on a percentage of costs, would be less as costs are reduced. Other savings such as the absence of extras, removal of delays due to material shortages, and reduction in vandalism and maintenance costs are possible.

Again let us emphasize that no savings should be overlooked. Because many cost items are calculated as a percentage or proportion of other costs, there is greater leverage in the housing field for cost savings than in most other fields.

Builders' profits are usually based on gross costs, not on the funds actually invested.

The benefits of mass production can be achieved if a mass market can be provided through, among other things, the removal of building code and zoning roadblocks and the removal of restrictive building practices.

Other means of reducing costs can come from the use of new financing provisions found in the 1968 Housing Act, notably those which will attract and expand the flow of mortgage funds into the housing industry; from the reform and reduction of closing costs, to which we address ourselves in some detail; and the expansion of cooperative ownership, which would provide savings to those who take part which would otherwise be unavailable to them.

All of these methods should be pursued. Large overall savings, or a smaller rise in costs than there would otherwise be in the face of a

general price rise, can come from working on these and other individual items of costs in housing.

The Commission attaches great importance to the cutting of housing costs for two main rea-

sons: so that more Americans can afford to rent or buy housing in the private market, and to reduce the public subsidies needed to help house those who cannot meet their basic shelter requirements.

*Escalation of land prices adds an ever bigger increment in the price of housing, and further explains the squeeze on low-income families seeking decent housing*

The first and by the far the biggest cost booster of housing prices is the cost of building sites. Land acquisition and site preparation (streets, curb and gutter, storm drainage, and so forth) now run from 15 up to 32 percent of the price to the consumer of a finished dwelling unit, whether single or multifamily.

Raw land prices are soaring faster than any other component involved in homebuilding. Between 1956 and 1966, the market value of privately owned land in the United States approximately doubled. Careful estimates<sup>8</sup> for "ordinary taxable real estate" indicated a rise in land value from \$269 billion to approximately \$523 billion during that decade. The 10-year growth in land value amounted to more than \$5,000 per American family. This indicated an average annual rate of increase of 6.9 percent, or somewhat more than the 6-percent rate of increase in gross national product. During the same 10-year interval, wholesale commodity prices rose 1 percent annually and the consumer price index 1.8 percent annually.

A large portion of this trend, of course, results directly from increased urbanization, involving the shift of some land from rural to urban use. Between 1956 and 1966, for example, the number of separately valued parcels of "urban" property rose by a little over one-fourth,

while the number of "acreage and farm" properties dropped off. The estimated value of urban land rose more than 130 percent, indicating an increase in average land value per urban parcel of about 83 percent, or 6.2 percent per year. Similar calculations for "acreage and farms" suggest an average annual rise in land value per property of about 5.6 percent. The greatest increases occurred where there were shifts from rural to urban uses.

Our studies have shown that in relation to market value, land tends to be assessed at a lower percentage than are buildings and improvements. Housing therefore bears a larger proportionate share of the local tax burden than does land. To assess both at market value would therefore not only be more just, but by diminishing the relative burden borne by improvements, should lead to a greater investment in them and would encourage more construction in housing and hence, some reduction in rents, below what they would otherwise be.

While urging a *relative* deemphasis of the property tax, we would improve this bulwark of local finance by moving toward full value assessment, improving machinery for taxpayer appeals, public dissemination of data on assessment ratios, and strenuous efforts at uniform assessment.

*Zoning was intended to control land development, but fiscal considerations often distort it, leading to economic and racial exclusion*

Zoning does not create land values. Population growth, community facilities and services, and the total community's commerce and industry create the values. Zoning determines whether landholders (or which landholders) may reap these values, setting up certain goals, presumably in the public interest, which take precedence over the real estate market as the sole arbiter of land uses.

Zoning is a "police power" regulation, deriving from the power of each State to legislate for health, safety, morals, and the general welfare. Since its earliest use, zoning developed as a system which leaves property in private hands while regulating its use. It attempts to guard the larger public interest while maintaining the

sanctity of private property. This is widely accepted by private interests, and is an approach to land-use control that government easily can afford.

In the 1920's, when zoning became prevalent, it adapted to the small-scale ownership and development typical of that era. Builders then were unable to build 1,000 houses at a clip: they often built one at a time or three or four. And the owner of a single small lot then, as now, is almost wholly dependent on his neighbors for his environment—a dependence which is increased by the American tradition of using yards, rather than walls, as the dividers between properties. The buyers and sellers of lots needed some device to prevent a drop in property values, keep out unwanted intrusions, encourage investment in land and construction—in sum, to

<sup>8</sup> Manvel, *Three Land Research Studies*, National Commission on Urban Problems, 1968.



assure character. The fee simple land tenure, which gives owners a freedom of use that modern homeowners are frightened to have their neighbors possess, did not provide the needed protection. Zoning did.

Today, a basic problem results because of the delegation of the zoning power from the States to local governments of any size. This often results in a type of Balkanization which is intolerable in large urban areas where local government boundaries rarely reflect the true economic and social watersheds. The present indiscriminate distribution of zoning authority leads to incompatible uses along municipal borders, duplication of public facilities, attempted exclusion of regional facilities.

In short, the proliferation of zoning authorities in metropolitan areas can consign sound metropolitan planning to an often fruitless exercise. But this is only part of the story. The problems of local government are greatly magnified because each political subdivision within the fragmented metropolis, relying primarily on the local property tax and facing heavy financial burdens, tends to lean inordinately on this splintered zoning power to boost its tax base. This is known as "fiscal zoning," the use of zoning to achieve fiscal objectives rather than purely land-use objectives. Fiscal zoning seeks to exclude from a jurisdiction any proposed development that might create a net financial burden and to encourage development which promises a net financial gain. Fiscal zoners try to strike a balance so the tax revenue which new development will contribute to local coffers will at least pay for the public services which that development will entail. The result of such practice is often serious economic and social dislocations.

The most serious effect of fiscal zoning is the spate of exclusionary practices relating to residential development. The aim, of course, is to keep out the lower income groups, and especially large families which require significant public expenditures in education, public health and welfare, open space, recreational facilities, police and fire, and the like. Lower income housing produces relatively low tax revenues so these expenditures add to the community's fiscal strain. The effect, under present financing methods, is either a reduced level of public services for all segments of the community or a higher tax bill. Given such a choice, present residents of the community are usually loath to accept additional tax burdens. Looking at the matter in pocketbook terms, they support fiscal zoning. Usually nobody bothers to ask where the families who are being excluded should live.

Fiscal zoning also violates a basic administrative principle: that authority be equated with

responsibility. In zoning, and the relationship between the Federal Government and local communities, there is no equating of authority and responsibility.

Most communities want all cream and no skim milk. They want the best, not only in physical structures and facilities, but also in the economic levels of people who will become their future citizens. They are willing to accept some industry for their tax base, but it has to be the cream—the research type—and not heavy industry. Each community engages in "one-up-manship," attempting to outdo its neighboring communities. In the communities' race for the cream, they give little thought to a balanced community—to providing shelter for all economic levels that may wish to live in the community, for those who will teach in their schools, clerk in their supermarkets, and work in their industrial plants.

The community rigs its master plan and accompanying zoning ordinance, making sure that it is almost impossible for low- and moderate-income families to move into the community by requiring large lots and reduced density, by prohibiting multifamily apartments, and by other excessive standards that price out poorer people.

The Federal Government has assumed some responsibility for providing decent, safe, and sanitary shelter, but presently it exercises little authority in this matter in local communities. As if this were not bad enough, Federal programs often *reward* suburban communities which are "zoning out" the moderate-income buyer. The suburban communities, for instance, receive planning money to assist them in drawing up discriminatory general plans to do the job.

In some communities, there is a very real problem of corruption in zoning decisions. A property owner who could build a shopping center or a high-rise apartment suddenly discovers that his property is worth many times as much as the property owner who is relegated to low-density development. The values at stake are enormous, so it is not surprising, therefore, that the zoning system is subject to enormous pressures by landowners and developers and that outright corruption is more than simply an occasional exception. Newspaper exposés of this sort of corruption are dramatic testimony to many less dramatic and less well understood effects of the relation of the control process to private market forces. Pressures for the more lucrative forms of development are always present.

One of the country's foremost legal experts on zoning<sup>9</sup> notes that zoning is caught between

<sup>9</sup> Richard Babcock, *The Zoning Game*.

two objectives, protection of the family home which requires positive Government action, and protection of the free market which requires Government refusal to take action. He questions the narrow court view of zoning as fitting into real estate law when, through subtle forms of

discrimination, for instance, zoning affects people and the nature of society, not just land. In short, although the basic justification for zoning is to protect the overall public good, this often appears to be the last consideration as zoning is now practiced.

*Orderly urban growth can be the result of a political commitment on land-use decisions, who makes them and how they are made, plus the will to spend money on cities*

Our crisis in urban growth springs from using 19th-century controls and attitudes in an attempt to mold and contain 20th-century cities faced with 21st-century problems.

Over the next 30 years about 18 million acres of land will come into urban use for the first time, and in present urban areas the processes of rebuilding and rehabilitation will continue. Just as land-use decisions made many years ago have affected the quality of today's urban environment, so decisions which we make today and tomorrow will shape the quality of urban life for future generations. We cannot delay many of the most important decisions until those who will be most affected by them can make their own choices. A reluctance to deal positively with the control of land development and redevelopment will not prevent development. Rather, it will allow it to take place in an undirected and haphazard fashion. That reluctance will represent just as much of a choice about our future urban environment as would careful, positive action.

We recognize that people and localities differ, that immutable principles about optimal urban form and character are largely illusory, and that variety and experimentation are important precepts of our federal system. For these reasons many of the Commission's proposals on land-use control are concerned with encouraging the creation of a governmental framework in which the legitimate choices of people can be formulated into public policy which, in turn, can then be translated into reality.

Land-use policies and practices are not limited in their effects to the quality of the physical environment, but have major social and economic implications as well. So we have tried to understand the total impact of present practices and to formulate recommendations within a broader scope of restoring fiscal and economic health to our cities and strengthening the currently fragile social fabric of our great metropolitan areas.

We propose State legislative action to improve local governmental framework for development control and to confine the exercise of such control to counties, regional governments (where they exist) and large municipalities. States should be required to undertake com-

prehensive studies of allocation of local government responsibilities for land-use controls if those States are to qualify for certain Federal planning grants.

We further call for the establishment of a framework for controlling urban development through establishment of a Council of Development Standards.

To point up the problem let us reiterate the estimate that over the next 30 years 18 million acres of land will come into urban use for the first time. This is about the size of all the urbanized land within the SMSA's right now. Between now and the year 2000, nearly all metropolitan area population growth, some 80 million people, will occur in the suburbs, which will use that next 18 million acres. We have come this far in our urban civilization in a haphazard way and the results surround us. We cannot afford to let our future urban growth occur the same way.

Implicit in our recommendations is a concern over the clutter and ugliness in our present urban environment. We are encouraged by the public support of efforts to remove or hide junkyards, to restrict highway billboards, and to plant more trees and flowers. It is imperative to deal not only with surface ugliness, but to incorporate esthetics as an essential element of all urban development. We see the results of unplanned growth in our metropolitan areas—congestion, unsightliness, blight, and unending ribbons of traffic. Both the courts and the legislatures need to support the people who are trying to halt the defacement of our cities and our land.

The sort of environment we should plan and build is an environment that includes all the aspects of a genuine community and that does not neglect any aspects of adequate housing. That will cost money and take careful planning and good design, not standardized design, but design to please the eye and the heart with a sense of variety.

The American people have a clear responsibility: They are both the consumers and the trustees of an environment. Only they can say whether we will have beautiful metropolitan areas or ugly ones. Beautiful cities of the past were beautiful because the trustees of these old



environments—a few powerful princes and prelates—so ordered them. Today in a democracy, the men in the street have the power and responsibility for deciding what their environment will be like; they will only underwrite a good one if they know what has brought them our ugly one.

The Commission's recommendations in land use are extensive. We urge that land-use authority be in the hands of larger units of government. We call for giving the housing consumer a greater variety in the choice of location of his residence, with special attention to the convenience of housing to employment opportuni-

ties. We propose that planning and design of new neighborhoods be pursued in a unified manner and in a comprehensive way, but within the framework of large-scale development, we support maximum opportunity for participation by small businessmen. Holding zones and land banking to control the timing and nature of development, authorization of planned unit developments in built-up areas as well as in new subdivisions, and compensative regulations are among the broader types of control that we believe will help replace haphazard growth with communities that better serve those who live and work in them.

*Building code jurisdictions are thousands of little kingdoms, each having its own way: What goes in one town won't go in another—and for no good reason*

A building code is a series of standards and specifications designed to protect people both in and outside of buildings from fire and hazards, and to protect the health and safety of the public in general. Building codes are formulated and enforced through the police powers of State government, ordinarily delegated to and exercised by local governments.

The main complaints against building codes are that unneeded or conflicting provisions and restrictions in locally adopted codes add significantly to the cost of housing, delay construction, prevent the use of the most up-to-date and modern materials, and inhibit creative design. It is further claimed that the provisions in codes are antiquated and outdated, and that the procedures for modernizing and amending them are slow, laborious, and lacking in objective standards.

The facts uncovered by exhaustive inquiries of this Commission at local, State, and National levels, and the problems faced by producers, builders, and professional people in the building industry, show unmistakably that alarms sounded over the past years about the building code situation have been justified. They showed that, while the national model codes were reasonably up to date, the lack of uniformity and modernization at the local level was serious. This situation calls for a drastic overhaul, both technically and among various levels of government.

How much building codes add to the cost of each housing unit depends on many factors and varies from one locality to another. The two main aspects that raise costs are restrictions against certain products or building methods, and lack of uniformity. It appears that modest savings would result from lowering the excessive bars against new technology—the new products or materials, and the new ways of putting them together. But overcoming the lack of uniformity should open the way to a high po-

tential for cost savings, largely because it would permit builders within metropolitan areas to substitute many more mass production techniques where they are now forced, by code variations, to put up essentially the same house in many different forms.

The country now has four model national building codes, any one of which any community in the country is free to adopt. It has been argued that if counties, metropolitan areas, and regions would simply adopt one or another of these codes by reference (no changes allowed), then there would be few code problems.

The trouble is that hardly any community or region does just that because some powerful group in town usually manages to get the code amended in their favor, whether they are pushing a particular material, technique, or system.

The Commission's survey of building codes<sup>10</sup> covered 17,993 units of local government. Only 46 percent, or just under half, had a building code, so that 54 percent had no code at all. Of the 7,609 units of government within SMSA's, 59 percent or 4,505 units of government had a building code; over 40 percent did not. Of the 10,384 units outside SMSA's, only 36.8 percent or 3,817 units had a building code.

Based on our survey, *only about 15 percent of all the municipalities and townships above 5,000 in population in the United States had in effect a national model building code which was reasonably up to date.* Eighty-five percent of the units either (1) had no code, (2) did not use a model code, or (3) had failed to keep the code up to date. This certainly confirms the complaints of builders and architects about the lack of uniformity, the absence of clear standards, and the proliferation of provisions.

<sup>10</sup> Manvel, *Local Land and Building Regulation*, National Commission on Urban Problems, 1968.

The survey also bore out the constant complaints heard by this Commission that many local codes bore little relationship to the model construction codes on which they were said to be based.

The Commission survey chose 14 specific products or practices where complaints about costs, prevention of preassembly, or excessive requirements are commonly heard. Most of the practices or products involved in complaints are allowed by the national model codes or their plumbing code counterparts. But quite different results were found locally:

Of those governments which had a building code, 66 percent of them prohibited the use of plastic pipe in drainage systems, 44.5 percent of them prohibited preassembled plumbing pack-

ages, and half (49.6 percent of them prohibited 2-by-4 studs every 24 inches on non-load-bearing interior partitions, still requiring them to be only 16 inches apart. The last-mentioned item requires 50 percent more studs every 4 feet of continuous wall. Further, 36 percent of the local codes prohibit 2-by-3 studs in non-load-bearing walls, requiring the more costly 2-by-4 studs.

Large-scale construction of housing can be developed adequately only when we get uniformity of codes within metropolitan areas and when excessive restrictions are swept away. We recommend that this be done through the adoption of regional, metropolitan, and State model codes. Otherwise, we believe the country will be forced to use the power of the National Government to compel compliance.

*Many places have no housing codes. Those that do often do not enforce them properly. We need a new generation of housing codes embracing higher standards and tied in with environmental standards*

Hundreds of thousands of people live in jurisdictions which do not have a housing code which establishes minimum standards of health, safety, and welfare in all existing housing. Where they do exist, a serious difficulty in enforcing existing standards is the lack of enough decent housing; lacking relocation housing, enforcement could mean throwing tenants of substandard housing out in the street. Combined with a large increase in the supply of housing, as the Commission proposes, the extension of housing code coverage throughout the Nation could bring a quantum jump in the quality of our present housing inventory.

This can be encouraged with various incentives to localities to adopt codes and by enacting State codes that will apply where no local code exists.

Obviously, it does not help to have a housing code on the books if it is not enforced. In many places there are too few employees to inspect and administer the codes. In others, lack of experience, threats from influential landlords, or timidity on the part of city fathers prevent proper and humane enforcement.

We found upon inspection of numerous model codes, State codes, and city codes that the standards set for dwelling and sleeping space, for example, were surprisingly low. Dwellings pass housing code inspections which most middle-class Americans would say are unfit to live in. Code standards should be brought up to a minimum level of health, safety, and welfare. This level would be higher than is commonly found in codes today.

To carry this out properly requires, first of all, that there be an increase in the total housing inventory. This is one reason we recommend

building from 2 million to 2.25 million new housing units a year.

Second, we must provide an abundance of housing for poor people, including interim and relocation housing. Mobile homes can be very helpful. Also, a careful scheduling of inspections can balance need for relocation housing with the supply.

Third, adequate funds must be provided through loans and grants so that compliance repairs by both homeowners and landlords can be made without resulting in undue burdens on those who can least afford them.

The initial effort should be to improve the Nation's worst housing. But if we succeed in enacting and enforcing the typical current minimum standards, we will still be short of the goal of the 1949 act of a "decent home for every American." We must look to the future and begin to set higher standards for a "decent" home which can be incorporated into our housing codes over the next decade.

And we should not think so narrowly that, when we agree on a standard of decency, we become satisfied with a decent home in an unsuitable environment. We now have no standards for a suitable living environment—no codes which say how much open space there should be, what parks and playgrounds are necessary, the maximum levels of noise, air pollution or odors which can be tolerated, or whether factories, freeways, lack of police protection, or potholes in the pavement make the neighborhood undesirable. An "environmental code," with standards for these matters vitally affecting how people live, should be tied in with all efforts to upgrade our cities and our housing, helping housing codes play their full role, which is a major one.



*To free the building industry, product manufacturers, planners, and the public from a hopeless maze of restrictions, we must develop a new system for codes and standards*

What we have seen in our separate studies of building codes, housing codes, subdivision regulations, zoning ordinances, and development standards, is a myriad of standards, many of them conflicting, often based on no objective data, a number of them excessively restrictive, some of them embodied in no formal code, and many the result of the whim of an inspector, mortgage company, or self-serving group.

In a number of areas, especially relating to the neighborhood or community environment, there are often no objective standards at all. This is usually the case in respect to noise, open space, school requirements, and recreation and park facilities.

In other matters, the standards seem unusually low, such as housing code requirements for dwelling and sleeping space.

In vast geographical areas of the country, there are no codes or standards which apply at all.

The main question is: How can order be brought out of this chaos? The Commission recommends a number of steps which should be taken.

First, we believe that some highly regarded institution, nongovernmental in nature, should provide an umbrella under which research and testing of new products and building methods can take place. Represented in this work should be Government agencies, private companies, educational institutions, trade associations, private laboratories, and professional and scientific bodies.

This is needed to provide some objective basis either for keeping or changing existing standards. It is needed to develop new standards in those areas where none now exists. Further, it is needed to create a better climate for new products and techniques.

We believe that the National Academy of Science-National Academy of Engineering is the institution which could oversee these functions.

We further recommend that a Council of Development Standards should be established by the Academies, and that two Institutes under it be established for the purpose of coordinating or bringing together research and testing in the building and environmental fields. We ad-

vocate a National Institute of Building Sciences to coordinate the work of public and private institutions in the areas of building products, structures, and codes. We believe a companion institution, a National Institute of Environmental Sciences, should perform the same type work in the area of housing occupancy, environment, and community standards.

This structure would bring a series of objective standards which could then be incorporated into the various model building codes, housing codes, subdivision regulations, zoning ordinances, and neighborhood environmental codes. These should apply uniformly at the local, regional, and State levels. Where no code now exists, where a code is restrictive, where standard products and practices are prohibited, where either below minimum standards exist or where excessive requirements are made, and where codes and standards conflict, then the builder or architect or community should be guided by the standards developed under the auspices of the institutions we have suggested.

Since the powers to apply and enforce these standards are State police powers, the States by adopting the standards (developed either under the procedures we suggest, or an improved framework) could provide for uniform and objective treatment throughout their jurisdiction. The Federal Government could also help enforce them by providing incentives to localities to adopt them.

In addition, we envisage that these standards could be codified and made available to builders, developers, city officials, and private groups, through a single development standards guide. This should embody not only those standards found in the traditional codes as they are developed and upgraded, but also those practices by professional and other groups which are, in effect, standards or requirements for building, occupancy, and development.

The major objectives of the Council for Development Standards and its functioning Environmental and Building Institutes would be both to push the development of new standards where none now exist, and to rationalize those existing standards which are outdated or in conflict with others, and to bring all standards affecting development into one orderly system.

*No broad attack on housing problems can ignore the sticky, myth-ridden issue of restrictive practices. Needed: More labor efficiency coupled with job security*

Labor costs in the building trades are rising as fast or faster than in other industries. Some hourly wage rates for construction workers cause horrors among the watchers of a bal-

anced economy. Yet these high wages are offset by loss of work between jobs and especially during bad weather conditions. Instead of the normal 2,000 hours of work per year in other in-

dustries, the average building tradesman works between 1,400 and 1,600 hours. As a national average, construction workers received lower *annual* wages than workers in other manufacturing industries in 1967.

Restrictive building practices are not easily separated from the special insecurity facing the construction worker. Not only the workers, but the entrepreneurs and manufacturers in the competitive homebuilding field enjoy less security than is common in other industries. Restrictive practices, typically considered simply as union or labor matters, often result from pressures by contractors and producers. Construction work may be extremely hazardous, and only persons intimately familiar with actual working conditions are qualified to separate legitimate safety rules from excessive, cost-padding restrictions.

Restrictive practices do exist. They are frequently exaggerated and misconstrued by viewing them out of context of the peculiar problems of the industry. But labor officials themselves told the Commission that restrictive practices are a problem.

Some of the most serious restrictive practices are these: (1) onsite rules requiring work to be done on the premises, prohibiting or limiting the use of prefabricated products; (2) restrictions against the use of certain tools or devices; and (3) requirements for excessive manpower, including irrational limits on the kind of work certain workers may perform.

We do not quibble about how much restrictive practices add to the cost of housing. The Commission finds no single magical way to reduce the cost of housing. Therefore, whether it is pennies or dollars or thousands of dollars per unit, every potential way to achieve savings must be pursued with vigor. That is the only way decent housing can be brought within the price reach of millions of working Americans.

Onsite wages are a big factor in housing, accounting for 20 to 30 percent of the price of a single-family house in most areas. Significantly, this variation of 10 percentage points is linked to management efficiency rather than to union versus nonunion scale. Also, the average current portion of housing costs attributable to wages, about 23 percent, is a sharp drop from the 33 percent figure of 20 years ago. In the same period, studies show that allowances for overhead and profit more than doubled.

The most widely recognized and most urgent restrictive practice is not a cost factor—it is discrimination. Until recently, minority groups were kept out of many building trades. That pattern is beginning to change. Determined efforts to change the old pattern, which used to

keep out many whites who did not have relatives in the trade as well as virtually all Negroes, although made too slowly, are finally showing signs of success.

Getting the unions to open the bars is only part of the struggle. Persuading Negroes to enter where they had not previously been welcome is not always easy. Many thorny problems of pretraining and apprenticeship also must be overcome.

Surprisingly, the big problem in the building trades could quickly shift to genuine trouble over getting enough qualified workers. In spite of the high hourly wages, young people are not drawn to them. Among high school students, few young men want to be carpenters. Or among most groups of parents in any metropolitan area, hardly any want their children to become carpenters.

So labor shortages loom on the horizon at the time the Government, this Commission, and many others are calling for a vast acceleration of new housing construction.

Challenging as this is, we think it offers an opportunity for dealing with restrictive building practices. Many onerous practices are almost insoluble in the framework of widely fluctuating employment and construction patterns. But a greatly expanded construction industry should offer opportunities to stabilize employment and to reduce the threat of seasonal unemployment. This means the use of more mass production techniques, which should simplify apprentice work to the extent more repetitive and routine assignments can be used. It should mean more indoor work, protecting workers from the rain and snow that often mean no pay. It should mean more opportunity for the trade unions to extend their membership into the prefabricating fields so that, as is already true in some unions, restrictive practices are thrown out because they begin to hurt fellow union members. Just enlarging the construction industry will not bring these things about automatically. But all those in government and private construction can use accelerated building programs as leverage to offer much more job security in exchange for abandonment of inefficient work practices.

The Federal Government, through its extensive contracting for housing and other construction, can exert considerable leverage to minimize the valleys of unemployment and peaks of labor shortages in the building trades. The Commission particularly recommends, as an appropriate measure in this direction, that the Congress authorize programs for a minimum of 3 years and in the case of public housing up to 10 years with the understanding that the local agencies will use their long-term scheduling to help stabilize building activities in their areas.



Labor is often described as blocking the path of new technology. Many instances can be cited. But labor has also accepted many modern building techniques. In the innovative or experimental fields, the Commission has found instances where labor was an active partner. If workers are brought into the planning at an early stage, there is every reason to expect they will not be obstructive, but will cooperate, working out jurisdictional problems and other matters before these lead to work stoppages or conflicts. Finding ways to do this better and more often should be the path of the future.

To cut costs and to prevent capricious interruptions of production, the Commission also strongly recommends that project agreements for public and publicly subsidized housing be negotiated between the unions, the contractors, and the Government, both national and local. These have proved successful in the TVA and the atomic energy and space efforts. These agree-

ments should seek to guarantee a greater volume of employment and in return remove some of the obstacles to increased production and reduced costs. They should provide for an increased opportunity for minority groups to share in the provision of employment and the opportunity to acquire skills. The settling of jurisdictional disputes should also be carried out by the appropriate board within the building industry.

The Commission does not urge punitive legislative action or Government compulsion to gain the abandonment of restrictive building practices. But we do urge trade union leaders and builders to cooperate to promote efficiency, as in project agreements. We do think that Government can help in many constructive ways. We warn that if restrictive practices in the industry are not reduced, the people may well be forced to take stronger action.

*Cost-benefit ratios of the programs we suggest are mere bickering in light of our need for a real political commitment to solve our problems*

Within a matter of hours after the publication of this report, the Commission's members—businessmen, builders, architects, lawyers, educators, and public officials—are likely to stand accused of asking for a program that costs more money. If so, we plead guilty. But the "defense" has one question to put to the "prosecution." Can we afford not to undertake these programs?

What will be the consequences if we permit present trends and policies to continue? One indirect answer is to count the costs we are paying now for the present state of affairs. A riot, for instance, may be accepted as a symptom of a problem, whether celebrated in a ghetto or around the administrative buildings of a university. In the 2 weeks following the death of the Reverend Martin Luther King, the Nation sustained many millions of dollars worth of insured property damage alone, not including the lost taxes on the burned and looted property. Nor does this include the loss of future sales because of fearful shoppers, higher costs of police and fire protection from increased crime and arson, jobs lost, and most importantly, the lives lost.

A riot is only the top end of the mercury, as it climbs past the fever line. The disease may be systemic, or it may be only a 1-day inflammation. No one, however, is betting on the latter.

The very idea of measuring the economic benefit of some programs against others, in the intangible area of "human investment," tends to stump those who try it. What does it cost and what are the benefits if society provides a college education for the brightest high school grad-

uates? Taking one program at a time, if opportunities are opened up, convincing studies can show the economic payoff of a good education, on-the-job training, or vocational rehabilitation in terms of lifetime income, and the taxes paid over the working life of adults who have or who lack various types of education. This is generally true, but it is true for minority groups only when they can use their new skills.

What cannot be costed out are the myriad returns in dollars and cents as well as intangibles to a city that is relatively free of slums, that does not wall up its minority citizens in a ghetto, that has the economic health to be able to respond to the needs of its residents. We have to approach it from the other side, and count the cost of present inaction. The President's Crime Commission studies indicated that in 1 year, 1965, \$300 million worth of property was destroyed by arson and vandalism; that "index crimes" (robbery, burglary, larceny, and auto theft) reached double that, and that the cost of public law enforcement (including punishment) added \$4.2 billion. The highest cost of all, that for "illegal goods and services"—all typical of the ghetto—narcotics, loansharking, prostitution, alcohol, and gambling: a whopping \$8.1 billion in 1965 alone.

A growing chorus of responsible, informed voices urges a change in policy. The programs this Commission advocates are not all-inclusive but are necessary companions to others, forming part of a web of actions to speed change in our urban areas.

However, the simple truth is that the Congress, the administration, State and local governments, and the general public have not yet had a sufficiently combined commitment to improve our cities. HUD appropriations for housing and community development in 1969 will not reach \$3 billion, but money for defense and space will top \$79 billion. Congress has no trouble authorizing \$2 billion for an airplane that cannot land on any public airfield in the United States, but recently the House chopped out 30 percent of HUD's meager programs, killed rent-supplement appropriations for the year, and came within 20 votes of wiping out the model cities program. The House appropriations Committee this year cut the money allocated for model cities and funds to provide essential social services in public housing. The point is that we already have the legislation and the programs to do the job. It is now a question of commitment.

*Perhaps the characteristic phenomenon of American politics in the 1960's will someday be seen as the emergence of the city as a political issue*

To be sure, government has long addressed itself to the separate components of the urban experience—unemployment, deteriorating housing, segregation, crime, disease—but only in this decade have we developed a sense of the effect of all of these forces working together in the modern metropolis.

This Commission does not believe that the Nation must choose either the policy of "gilding the ghetto" or "dispersing the ghetto." We are now doing neither. The Nation must do both. We must build decent housing in the slums, and we must provide freedom of residence for all Americans.

We advocate policies which not only promote freedom of residence but programs which would build low-rent housing in the suburbs as well as in the cities, provide sites in outlying areas, give States incentives to act where localities do not, lease houses for the poor in middle class neighborhoods, and tie a locality's eligibility for Federal grants such as for highways, sewers, and water to that community's effort to house its share of the poor.

We also advocate a massive attack on substandard and overcrowded housing conditions which are concentrated in the core city among the poor, especially among the Negro poor. When we speak of housing conditions we also mean providing adequate city services, housing code programs, relocation payments, neighborhood improvements, recreation and open space, and good urban design, so that both a decent home and a suitable living environment are provided.

A lot of the rules of our society will have to be changed before anything meaningful can be done to make right the wrongs of our most disadvantaged and helpless citizens. We should do this in the name of justice. We should also do it in our own self interest. Over time, welfare costs could be cut, police protection diminished, and productive lives prolonged. Housing for low income families in the suburbs might also attract industry needing unskilled and semi-skilled labor and hence increase the tax base and the economic well-being of the community. There are economic advantages in doing what is just.

But little will change without a political commitment from the larger society. It will not be enough simply to preach to the larger society that "perhaps the measure of a free, democratic society is the condition of life of its most abject citizens."

We view a larger governmental role as an absolute necessity in providing low-income housing.

Federal, State, and local governments share responsibility for urban problems. There is no question that cities must continue to rely on the Federal Government to carry a large part of the burden by providing the subsidies. The present fiscal resources of the city do not permit the scale of funding required to bring decent housing within reach of those at the bottom of the economic ladder.

The Federal Government also may have to play a more direct role. This may be particularly true when conflicting demands on local officials block effective action. Though city governments have considerable legal powers, city officials have limited political power and less money to deal with all the conflicts which are inherent in the rising expectations of the urban poor. Then, too, the politically potent objections to public housing, to rezoning for multifamily housing and to opening up previously all-white areas to Negroes have also constituted serious impediments to a rational and successful exercise of city powers. Metropolitan and State powers should be brought into play to the fullest possible extent. And at the Federal level there will be required more insight and determination than has been manifest in past years.

Meanwhile, there has been a growing cry for "community participation." Many communities within a city desire somehow to have self-determination and become the executors of their own policies in housing and other matters. The



model cities program incorporates some of this philosophy, but it does not go as far as the supporters of advocacy planning and total community control believe; namely, that only the residents of a particular area can know what best serves their interests. They believe that any attempt on the part of the city, let alone the State or Federal Government, to impose new housing is per se arbitrary and undemocratic. Compliance with these demands may satisfy the prevailing or most vocal political sentiments of the moment. But it is not necessarily the most rational or effective or efficient way to create housing. For too long it has been forgotten that neighborhoods deserve a strong voice in public programs affecting them. But a distinction needs to be made between the right to be heard and the right to obstruct. The final power should be through elected officials, which gives the public the ultimate control via the ballot box. Not every community is in the best position to evaluate its needs in relation to the entire urban area. And that goes for suburban communities as well as for sections of the inner city.

Direct Federal intervention also raises serious policy questions. There is the risk of a uniformity and standardization that might result from a single Federal agency contracting for housing in many parts of the country. The size of the bureaucratic structure that could develop might stifle new developments, new techniques and local variations. Above all, it might curb local initiative and the proper exer-

cise of community prerogatives. That is why we place such emphasis on local, regional, and State action to get the job done.

So, if our cities are to continue to play the decisive role in the formulation and development of their own housing supply, they will have to evolve new mechanisms for dealing with the disparity of local interests and they will have to incur the political risks of choosing between competing demands. Proper planning decisions can probably only be made on an area-wide basis, yet if they are done arbitrarily without any participation and consultation of the local community, they will not meet the public acceptance needed to carry them out.

There are no simple mechanisms, and it is inevitable that we will continue to search for the right blend of Federal, State, city, and neighborhood participation. A giant step was taken in that direction with the passage of the Housing Act of 1968, a landmark in housing legislation. President Johnson called it a "Magna Carta to liberate our cities."

The new act properly emphasizes housing for low-income people. It calls for action comparable to the need. How the mandates of that legislation are followed, of course, remains to be seen. But the Nation would be well on the right track if it followed the directives set forth. It has a great potential and does credit to those in the administration and Congress who framed it.

*To do something about the urban crisis, as political commitment grows, we can start getting the rules changed: Revenue sharing, property tax modernization, Federal income tax revision. Tax incentives not an efficient means to solve slum problems*

Under present practices of taxation and financing, even with a subsidized interest rate and long-term mortgages, private enterprise cannot supply the low-income housing required in the inner city. Only public housing in some form can meet the needs of the families earning under \$4,000 a year. For the localities themselves to underwrite the cost of land assembly, removal of buildings, and loss of property tax payments would bankrupt almost any city. Only a massive addition of public funds can meet the situation.

The money for this will have to be drawn from the increase in tax receipts coming from the gains in national productivity, a more humane reordering of public expenditures, and reforms in our system of taxation. Our willingness and ability to take these steps will be a test of the values of the men and women who comprise our society.

But many will ask: Why should we subsidize on such a massive scale? The question is largely

based on an uninformed notion of how our economy grew. American enterprise has been fueled again and again with subsidies, starting with land grants from the 17th to the 19th century. We often subsidize the richest people in the country: There are more than 30 families in the United States who have annual incomes over \$500,000 but who pay no taxes. Perhaps more relevant to the housing problem, about 3½ times as much in housing subsidies goes to those with middle or higher incomes through income tax deductions than the amount of the subsidies which go to the poor for housing.

In a recent year, the upper 20 percent of income groups got twice as much in housing subsidies as did the lower 20 percent.

Many businesses benefit from one or a number of subsidies, hidden or open: air travel, automotive, agriculture, communications, the oil business, research and aerospace industries, and just about anything else you can name. Each year in the United States, the Government finances reclamation for agriculture to the tune

of millions a year on long-term loans at a zero rate of interest. Middle- and high-income homeowners also enjoy Federal subsidies.

We do not necessarily favor all of these subsidies, but they do show that vast quantities of economic aid have gone to powerful groups. Based on Lincoln's principle that government should do what private citizens cannot do or cannot as well themselves, and on the principle that aid should go to those who need it most, the strongest case can be made for helping those at the bottom of the economic ladder.

Additional Federal assistance to the cities is urgent. About 54 percent of all local government expenses go toward education and welfare. Many education and welfare costs are dumped on cities by the immigration from small towns and rural areas. If the needs are not created locally, even less are the benefits local: In our mobile society, everybody everywhere benefits by a school system that turns out well-trained citizens, and by a welfare system that minimizes human suffering. Putting more of the burden of education and welfare costs on the Federal Government could be worked out equitably and would be one way of leaving local governments enough revenue to meet their other pressing needs.

Some new urban-oriented Federal programs may mean less funding for other worthwhile domestic programs. But not necessarily. The growth of the economy produces a greater than commensurate increase in Federal revenues. From June 30, 1967, to June 30, 1968, the gross national product is estimated to have increased by \$60 billion and Federal revenues by \$11.5 billion. Of course, a considerable proportion of the resulting increase in Federal revenues must go for increased costs of servicing an expanding economy and population. However, a significant proportion of the annual increase in Federal revenues should be available to help pay for urban development programs in general.

To this end, the Commission recommends that Congress adopt a system for regular revenue sharing with State governments and major cities and urban counties. The revenue-sharing system should be on a simple formula basis that (1) reserves to a Federal trust fund a sum for annual allocation consisting of a legally authorized percentage of the total net taxable income reported under the Federal individual income tax; (2) provides an allocation to each State area based primarily upon population, but with an adjustment for relative total State-local tax effort in relation to resources and additional crediting for State revenue from taxation of individual income; and (3) provides for a portion of the allocation for individual State areas to be paid directly to the cities according to their

respective shares of all State and local tax revenue in the particular State. The system should leave a high degree of discretion with the recipient governments as to the use of the distributed funds.

It seems reasonable to expect that the proposed "new" revenue source would promote some shift in the overall composition of the base for domestic government financing. The increased use of Federal income taxation would permit either improvement and expansion of State-local services, or less increase than would otherwise occur in State and local taxes, or—most likely—some of both. The Federal tax system, with all its faults, is more progressive and equitable than the systems currently used by the State and local governments, so such a shift clearly would be in the public interest.

We strongly favor an increased reliance upon major multipurpose governments in large urban areas. For various reasons, however, some existing Federal and State grant programs do involve an effective bias against large cities and urban counties. We are proposing a comprehensive effort to identify and eliminate such conditions for grants which put multipurpose governments at a relative disadvantage.

While a shift of more Federal funding would be worthwhile, local taxation most likely will have to continue to rise, even if at a relatively slower pace. So it becomes increasingly important to perfect the property tax which remains the fiscal bulwark of local government.

We also favor a revision of the income tax rules which in the case of the older buildings would permit major repairs to be treated as an operating expense rather than penalized as an addition to capital value. To the extent that the income tax provisions discourage maintenance of old existing housing, the goal of better cities requires that these rules be changed.

While the Commission strongly urges the removal of income tax features which now tend to discourage the owners of rental properties from conserving and improving their investments, we do not advocate Federal tax incentives to solve slum problems. Our studies indicate that such an approach would be inefficient and ineffective. It is frequently forgotten that tax incentives may cause a drain on the Treasury as great or greater than direct subsidies. The main fiscal reform job is to make certain that the tax system poses no pocketbook obstacles to socially desirable behavior. But to accomplish further goals, beyond what the private market system accomplishes within this framework, direct subsidy programs tend to be superior to the tax incentives route for pinpointing benefits and assuring alert supervision by governmental bodies.



*Commission believes in a larger role for the cities. We must improve local governments and then give them more authority and more money*

The Commission believes in a much larger role for the cities and proposes numerous ways by which they can improve their structures and exercise their authority in more efficient ways.

So that cities may have more money, we propose a Federal revenue sharing plan in which funds would go not only to the States but also directly to cities of 50,000 or more people. And they could benefit from this system in proportion to their own local tax effort.

The further improvement of the local revenue system is the aim of additional proposals: more user charges where appropriate; collection of school taxes on a county or multicounty basis to smooth out big-city inequities; modernization of the property tax; and arrangements for interstate metropolitan areas to "piggyback" on the Federal income tax where the localities so desire.

To help cities do a better job of housing the poor, we propose that the Federal programs they rely upon should be simplified and speeded up. We urge the long-term funding of these Federal programs—from a minimum of 3 years and up to 10 years—so the money spigot will not be turned on and off unpredictably. We want communities that turn in a consistently good record on Federal programs to be rewarded by an easing up of restrictions or red-tape. To preserve and improve existing housing inventories, we urge that housing codes, now often limited to gray areas, be expanded city-wide to include slums and more affluent neighborhoods. We also propose that cities make use of better, faster, and more humane code enforcement methods.

*The States are close enough to the people and yet enough removed from petty parochial interests to become major constructive forces in dealing with urban problems*

The Commission does not subscribe to the notion that all problems can be best solved or handled from Washington. That is why we give so much attention to improvement of local government. We also feel that the States have a special role to play.

Among the issues in which we urge the States to exert new leadership are the following:

Adoption of open housing legislation (by States not now having it) and the strengthening of existing laws.

State legislation to authorize housing assistance functions to be carried out by countywide or multicounty housing agencies.

The use of State powers of eminent domain to provide sites on which to build housing for low- and moderate-income fam-

To further help cities with their problems, we urge that cities be given authority to lease housing for low-income families throughout the entire metropolitan area, especially in suburban areas that have job opportunities for blue collar workers. We could also shield the right of local officials to act on these difficult matters by urging that public housing and urban renewal approvals not be subject to State or local referendums.

To assure more orderly development, we propose protection for the central city resident against excessive variances, rezonings and tolerance of nonconforming uses. For the protection of citizens in the outlying areas, and to help prevent wasteful, hodgepodge growth in areas moving from rural to urban uses, we offer a variety of local planning and land assembly tools. And we urge that very small jurisdictions be prevented from disrupting sound area-wide plans by giving broader surveillance and veto powers to governmental units with a larger perspective.

We urge leaving to the cities as much authority as they can competently handle. But we urge consolidation of the hundreds of tiny jurisdictions and special districts into larger and more efficient bodies. As this is done, even more authority can be exercised locally. Housing the poor and removing segregation are of such supreme national importance that States and the Federal Government must set guidelines for minimum performance. But competent city governments should have the added tools and money to carry out the programs and to make the day-to-day decisions.

ilies in those municipalities or counties which have received Federal or State assistance for urban renewal, planning grants, or water and sewer projects, but which have not built housing for these income groups.

Enactment or amendment of State housing laws to give municipal housing authorities the right to lease dwelling units for publicly assisted housing outside of their corporate boundaries under specified circumstances.

Operation of statewide housing programs funded jointly by Federal and State moneys.

Removal of the constitutional barriers (in some States) which prevent combined

private-governmental ventures in housing and other urban activities.

As pointed out elsewhere, the Commission proposes many incentives to encourage the States to move vigorously in matters of zoning, land use and assembly, building codes, housing codes, development standards, reduction of housing costs, and the streamlining of local government. They can do much to bring order out of chaos in the codes field by helping to achieve uniformity, by providing State codes for areas that have no codes, and setting forth uniform standards to be used in areas where local codes are found to be too restrictive.

Codes are State police powers delegated to the localities. The States must reassert some of their authority through appeals bodies and other appropriate means in those areas (1) where no

codes exist, (2) where they are restrictive, (3) where they lack uniformity and (4) where local boards or inspectors take too narrow a view.

We believe the States have tended to become forgotten members of the governmental family. By using powers they already possess, by assuming new authority when necessary, and in providing funds, they occupy a unique position to help bring urban areas out of confusion. State governments are close to the people and to the problems, but bring enough perspective to bear to help release urban areas from the excesses of localism. State action of the kind we recommend, where the States are willing to help pay a significant amount of the costs as well as to exercise their authority, can help restore a genuine sense of community to our cities and their surrounding areas.

*The solutions we call for are a tall order, but they are in proportion to the enormity of the problems of our urban areas*

If there is a sense of urgency and even alarm in our report and our recommendations, it is because the Commission saw the cities of our country firsthand and listened to the voices of the people. The Commission members certainly were not less concerned or knowledgeable than the average citizen, but after our inspections, hearings, and research studies, we found problems much worse, more widespread, and more explosive than any of us had thought.

We do not want to lose our perspective nor cause others to do so. This is a remarkable country. The poor and so-called uneducated often speak with an eloquence and moral fervor reflecting an environment that cannot be entirely negative in its influence. Our huge metropolitan areas on the whole offer a wider range of choices for making a living, for type of residences, and for pursuit of happiness than has ever been available to so many people anywhere. The number of able and highly motivated local officials, often remaining optimistic and determined in the face of great odds, is impressive. The Federal response to criticisms and suggestions (including some of our own) often has been swift and to the point. The recent acceleration and quantitative advances in Federal housing programs to meet the domestic urban crisis, in the face of international distractions and political handicaps, has been creditable. The urban renewal program, for all its shortcomings, has given many cities a better appearance and a new lease on life. The country's balance of private production with only limited governmental restraints not only turns out a great abundance of goods and services, but demonstrates a strength and stability that should not be taken for

granted. Americans show great initiative and industriousness.

It is not because we are unmindful of these and other blessings, but because we want them to be conserved and extended, that we point so urgently to the various problems that threaten our society. We need not dwell on this point. The riots have dramatized it more than words can do. Even though they have slowed down we remind the public that the causes still remain.

The Nation can, if it will, remove many of the causes of unrest.

A glance at the specific assignments given to this Commission for study will show that they are weighted heavily on the technical side: zoning and land use, building codes and technology, housing codes, development standards, local and Federal taxes affecting housing and urban growth, housing for low-income families, and the governmental framework to deal with all of these. But the Commission could not lose sight of the relationship between these technical matters and social problems. We agreed from the start not to duck the tough issues of poverty and race. And we conclude that those who sincerely want to solve the big social problems cannot do so if they duck the tough technical matters.

We must put housing on the front burner. We must focus our housing programs on housing for poor people. We believe in giving local authorities the tools and the money to get the job done. The States must have an expanded role, especially in getting sites, providing for low-income housing, and in breaking down the barriers of codes and zoning. We need simpler programs, a speedup in processing, and more initiative from Federal agencies. We seek the utmost co-

operation from builders, developers, and private industry. If all of these fail to bring an abundance of housing for poor people, then we believe that the Government must become the builder of last resort. We hope this is not necessary but past neglect, unfulfilled promises, misplaced priorities and the consequences of failing to act give us compelling moral and practical reasons for proposing no less.

We must ease the tension between central city and suburb, between rich and poor, and especially between black and white. Too few have recognized how these basic democratic issues are

related to local government structure and finance, to zoning policies, land and housing costs, or to national housing policies. The recommendations we make in these areas are a test of our most fundamental beliefs. We are a wealthy Nation, so it is not really a question of whether we can afford to do such things as we recommend. It is simply a matter of whether we still have faith in freedom, in equality, in justice, enough to make sacrifices in their cause.

We are confident that the Nation can rededicate itself to these goals that have been the touchstones of national progress and success.



## Supplementary Views of David L. Baker

While I generally support the findings and recommendations of the Commission, I must take exception to some of the assumptions on which the report is based.

Of serious concern to me is the assumption that local governments, i.e., cities and counties, have the fiscal ability to participate in well intended partnership programs established by the Federal Government which require a local financial contribution. Local government is presently in a financial crisis. It is confronted with greater demands for service and new programs mandated by Federal or State Governments which require local contribution. Local government is supported primarily by a property tax base which does not increase in proportion to new program costs. Were local government to take on these additional mandated cost sharing programs, the ownership of real property would rapidly become an unbearable burden. To impose additional responsibilities on local governments without first improving their fiscal integrity would be self-defeating.

The report suggests that local government has been irresponsible in not providing for low-cost housing. The fact of the matter is that local government has never had such a responsibility nor has it had the fiscal ability to assume such. There is no question that low-cost housing is absolutely essential and that it is an issue that requires a positive political commitment. The provision of public housing, in my mind, is a function that can best be performed by local government. However, it is imperative to recognize that the narrow property tax base cannot support involvement in this arena.

I am also concerned that the report characterizes local government as using zoning as an instrument for effecting or maintaining segregation. No doubt there are exceptions; however, segregation is primarily a product of socioeconomic conditions long rooted in the fabric of our society and it is unfair to suggest anything to the contrary.

In the area of specific recommendations I have views which differ from those of the majority.

I do not believe that a useful purpose would be served by pursuing studies related to additional taxation of land values or land-value increments as recommended in part V, chapter 6. It is recognized by the Commission that the property tax must be deemphasized as the pre-

dominant revenue base for local government. The imposition of an additional tax on land would simply compound an already serious condition.

The Commission recommends in part II, chapter 1, that State housing agencies with the coercive power of eminent domain be created in order to insure compliance with grant programs designed to provide low-cost housing. I do not believe that such action is necessary, nor in the interest of local government. Other remedies are available to insure compliance and such action would only serve to undermine Federal, State, and local government relations.

I likewise cannot support the Commission's recommendation that local government approval be eliminated as a condition precedent to implementing a rent supplement program. Decisions relating to local conditions, in my view, can best be made by those at the scene. Only if there is evidence of concerted action by a local entity to thwart the intent of the legislation should there be any requirement for a nonlocal determination. In general, I am concerned that local determination is continually being eroded. I strongly urge that actions which tend to reduce the viability of local government are not in the public interest.

Rather than seeking new revenue sources for local government, such as the federally collected regional income taxes recommended in the report, it would seem more appropriate to simply return part of the moneys presently collected by the Federal Government to the point of origin.

Low income private housing deserves more attention. Perhaps the formation of a federally sponsored, low interest home loan bank would provide the stimulus necessary to involve the private sector and to encourage individual home ownership. Obviously, there is a huge market for low-income housing but the market is composed of a group which cannot afford commercial loans.

There is a need to overhaul the ponderous structure of the Federal housing programs which cause unnecessary delay and excessive costs, effectively repelling the private sector.

Greater emphasis should be given to the problem of inconsistent building code interpretation by the enforcing agencies which, together with featherbedding labor practices, materially contribute to the cost of construction.

## LIST OF RECOMMENDATIONS

Recommendation No.	Subject	Part, chapter (or section)	Page	Recommendation No.	Subject	Part, chapter (or section)	Page
<b>Housing programs:</b>				<b>Housing programs—Continued</b>			
1	Housing goals	II-9	180	31(c)	Improvement of relocation and displacement payments.	III-9	197
2	Annual presidential housing message	II-9	181	31(d)	Direct FNMA mortgages in hardship cases.	III-9	197
3	Relation to national economic policy	II-9	181	<b>Toward a more orderly urban development:</b>			
4	Reduction in the general level of interest rates.	II-9	182	1	Enabling competent local governments to guide urban development effectively.	III-2	236
5	Capital budget	II-9	182	1(a)	County or regional regulatory authority in small municipalities.	III-2	236
6	Legislative authority should be sufficient to fund housing programs 3 years into the future.	II-9	183	1(b)	State requirement of a local development guidance program.	III-2	237
7	Federal initiative to establish priority for needs.	II-9	183	1(c)	Study of government structure in relation to land use controls.	III-2	238
8	Improved statistical data dealing with housing and other urban problems.	II-9	184	1(d)	Restructuring local planning and development responsibilities.	III-2	238
9	Rewriting of Federal housing statutes.	II-9	185	1(e)	State recognition of local land-use controls.	III-2	239
10	Simplifying programs and regulations.	II-9	185	2	Establishment of State agency for development planning and review.	III-2	239
11	State and local legislation to secure open housing.	II-9	185	3	Assuring greater choice in the location of housing.	III-2	242
12	Federal requirements of local legislative and enforcement action.	II-9	186	3(a)	Assurance by local governments of housing variety.	III-2	242
13	Areawide housing plans and administration.	II-9	186	3(b)	Multicounty or regional housing plans.	III-2	242
14	Elimination of local government rent supplement veto.	II-9	187	3(c)	Collection of regional housing data.	III-2	242
15	Extraterritorial leasing by city housing agencies.	II-9	187	3(d)	Public acquisition of housing sites.	III-2	243
16	Improvements in public housing policy and administration.	II-9	188	3(e)	Establishment of State policy on housing near employment centers.	III-2	243
16(a)	Greater use of scattered sites	II-9	188	3(f)	Establishment of Federal policy on housing near employment centers.	III-2	243
16(b)	Use 10 percent of units in 221(d)(3) projects for low-income housing.	II-9	188	3(g)	Facilitating court challenges to zoning actions.	III-2	243
16(c)	Removal of restriction on amenities.	II-9	188	4	Unified planning and design of new neighborhoods.	III-2	245
16(d)	Further encouragement to public housing tenants to purchase their units.	II-9	188	4(a)	Restriction of development through holding zones.	III-2	245
16(e)	Interracial management staff.	II-9	189	4(b)	Regulatory process for planned unit development.	III-2	245
16(f)	Related commercial uses in public housing.	II-9	189	4(c)	State authorization for planned development districts.	III-2	246
16(g)	Provision of close cooperation between housing and social agencies in the community.	II-9	189	4(d)	Public assistance for land assembly.	III-2	246
16(h)	Removal of administrative and legislative requirements which tend to restrict the number of units for large families.	II-9	189	5	Assuring fairness and equality of treatment in the application of standards.	III-2	247
16(i)	Remove restrictive regulations which prevent architectural innovations in providing bedroom space for large poor families.	II-9	189	6	Strengthening development controls in developed areas.	III-2	249
16(j)	Consideration of a 60-year mortgage for public housing units.	II-9	189	6(a)	Authorization of planned unit developments in built-up areas.	III-2	249
16(k)	Improve the quality of life.	II-9	190	6(b)	More efficient powers and guidelines regarding variances, rezonings, and nonconforming uses.	III-2	249
17	Additional subsidy to reach the abject poor and the large poor family.	II-9	190	7	Use of land purchase and compensative techniques for development control.	III-2	250
18	Elimination of State and local referendum requirements for public housing and urban renewal projects.	II-9	190	7(a)	Compensative regulation.	III-2	250
19	Larger role for States.	II-9	191	7(b)	State authorization for land banking.	III-2	251
20	Federal Government—builder of last resort.	II-9	192	7(c)	Provision of Federal assistance for land acquisition.	III-2	252
21	Consolidation of housing assistance activities.	II-9	192	<b>Building codes:</b>			
22	Removal of State constitutional barriers.	II-9	192	1	Framework for development and furtherance of building standards and technology.	III-3	266
23	Establish programs of urban advisers.	II-9	193	1(a)	Formulation of building standards.	III-3	267
24	Programing the urban renewal process.	II-9	193	1(b)	Provision for performance standards, product approval, and information exchange.	III-3	267
25	Housing and other facilities for low-income Americans in urban renewal project areas.	II-9	194	2(a)	Use of Federal influence to curb restrictive building code provisions.	III-3	268
25(a)	Land for low-income housing.	II-9	194	2(b)	Formulation of building code standards for rehabilitation housing.	III-3	269
25(b)	Attraction of commercial component to project.	II-9	194	2(c)	Eliminating unnecessary variations in Federal construction standards.	III-3	269
25(c)	Replacement of low-cost housing demolished under Federal or federally aided programs.	II-9	195	3	Adoption of State building codes and mandating building code uniformity in metropolitan areas.	III-3	269
25(d)	Use of highway funds to replace low-income housing demolished for highway construction.	II-9	195	4	Strengthening State supervision over building code administration.	III-3	270
26	Reward for efficient performance.	II-9	195	<b>Housing codes:</b>			
27	Funds for special programs.	II-9	195	1	Establishment of a nationwide structure for housing codes.	III-4	295
28	Long term leasing of urban renewal land.	II-9	195	1(a)	Adoption of statewide mandatory housing codes by all States.	III-4	295
29	Extended relocation service.	II-9	196	1(b)	Federal aid to States for State and local housing code administration.	III-4	295
30	Relocation housing.	II-9	196	2	Housing code administration.	III-4	296
31	Uniform and effective relocation policies.	II-9	196	2(a)	Goal and guideline formulation.	III-4	295
31(a)	Uniform relocation policy and payments under Federal and federally aided programs.	II-9	196				
31(b)	Unified provision of services to those displaced.	II-9	197				



## LIST OF RECOMMENDATIONS—Continued

Recommendation No.	Subject	Part, chapter (or section)	Page	Recommendation No.	Subject	Part, chapter (or section)	Page
Housing codes—Continued				Steps toward neigh- borhood regenera- tion:			
2(b).....	Establishment of neighborhood im- provement and housing services agency.	III-4	295	1.....	Accelerate improvement in poor neigh- borhoods by providing adequate city services.	IV-2	349
2(c).....	Establishment of citywide program of neighborhood improvement and hous- ing maintenance.	III-4	297	2.....	Decentralization of municipal services to neighborhood city halls.	IV-2	350
2(d).....	Wide variety of code enforcement sanc- tions and remedies.	III-4	298	State-local action toward better urban financing:			
2(e).....	Reforms in the law of landlord and tenant.	III-4	299	1.....	Move to balanced State-local revenue system.	IV-4	363
2(f).....	Right of entry for housing inspections.	III-4	299	2.....	Review and revision of State-local fiscal relations.	IV-4	363
2(g).....	State and local repair and receivership programs.	III-4	300	3.....	Increased local government use of user charges, where appropriate.	IV-4	364
2(h).....	Establishment of health education and community relations programs.	III-4	300	4.....	Countywide or multicounty taxation for public schools.	IV-4	365
2(i).....	Wider applicability of Federal aids for rehabilitation.	III-4	300	5.....	Supplement to Federal income tax in interstate metropolitan areas.	IV-4	366
3.....	Acceptance of housing codes in Federal policy.	III-4	301	6.....	Improvement of property tax.	IV-4	368
3(a).....	Definition of "substandard housing"....	III-4	301	6(a).....	Limiting coverage, exemptions and tax relief.	IV-4	368
3(b).....	Recognition in national housing policy..	III-4	302	6(b).....	Appropriate machinery for assessment work.	IV-4	370
3(c).....	Survey of housing quality.....	III-4	302	6(c).....	Moving toward full value assessment....	IV-4	372
3(d).....	Vendor payments for public assistance rental shelter allowances to assure use of standard housing.	III-4	303	6(d).....	Data on assessment ratios and prop- erty taxation.	IV-4	374
3(e).....	Changes in administrative practices and regulations.	III-4	303	6(e).....	Machinery for taxpayer appeals.....	IV-4	375
3(f).....	Federal aid for citywide code enforce- ment.	III-4	304	Overhauling Federal aid for urban gov- ernments—a reve- nue sharing plan:			
3(g).....	Interim assistance program.....	III-4	305	1.....	A Federal revenue-sharing system.....	IV-5	378
4.....	Development of higher standards.....	III-4	305	2.....	Support for urban grants-in-aid.....	IV-5	382
4(a).....	Coordination and improvement of existing housing codes.	III-4	305	3.....	Removing antimetropolitan bias from Federal-aid programs.	IV-5	383
4(b).....	A new generation of model State and local housing codes.	III-4	306	Problems of land value taxation:			
4(c).....	Vigorous enforcement of housing codes.	III-4	306	1.....	Treasury study of land value taxation..	IV-6	394
4(d).....	Adoption of new concept: neighbor- hood conservation code.	III-4	306	2.....	State action concerning land value taxation.	IV-6	394
Development standards:				Federal income taxa- tion and urban housing:			
1.....	Establishment of a Council for Devel- opment Standards.	III-5	318	1.....	U.S. Treasury study.....	IV-7	406
1(a).....	Framework for development and fur- therance of environmental stand- ards—the National Institute of Environmental Sciences.	III-5	319	2.....	Tax incentives for upkeep of older rental housing.	IV-7	406
1(b).....	Preparation of a compendium of acceptable existing development standards.	III-5	320	3.....	Tax incentives for low and moderate Income housing investment.	IV-7	406
2.....	Adoption of technical development standards by local governments.	III-5	320	Reducing housing costs:			
3.....	State requirement of a single local comprehensive development code.	III-5	320	1.....	Reducing seasonality in the construc- tion industry.	V-6	482
Toward a more viable structure of urban government:				2.....	Reduction in restrictive work practices.	V-6	482
1.....	Machinery for structural change—a road to local self-determination.	IV-1	339	3.....	Prompt initiation of special technology demonstration program.	V-6	482
2.....	Improvement of local government arrangement in major urban areas.	IV-1	342	4.....	Long-term housing programs in ex- change for more efficient building practices.	V-6	482
3.....	Actions by State governments.....	IV-1	343	5.....	Modernization of State usury and foreclosure laws.	V-6	483
				6.....	Improvement of closing cost systems..	V-6	484
				7.....	Limitation of closing cost liability.....	V-6	484
				8.....	Requirement of advance disclosure of closing costs.	V-6	485
				Design:			
				1.....	Design development bank.....	VI-2	499

## GLOSSARY OF IMPORTANT TERMS

**ACIR**—Advisory Commission on Intergovernmental Relations—a permanent, bi-partisan body established by act of Congress in 1959. It is composed of 26 members, drawn from local and state governments, and from the Federal government, and is charged with giving continuing study to the problems of, and relationships among, the three levels of government.

**APIA**—American Public Health Association—Association whose Committee on Hygiene of Housing in 1952 prepared and published *A Proposed Housing Ordinance*, which contains most of the health standards used in housing codes, and which has been used as a model for numerous state and local housing codes.

**assessment ratio**—for purposes of property taxation, the relationship between the assessed value of property and the same property's market value.

**BMIR**—below market interest rate—generally related to part of the 221(d) (3) program.

**BOCA**—Building Officials Conference of America—one of the four national codes groups which publish and maintain a variety of model building and housing codes.

**central city**—a municipality of 50,000 or more at the center of a metropolis; a political jurisdiction, not to be confused with "downtown," "core," or "slum area."

**city**—the city, as a general term, should mean the entire city, including the central city and the suburbs. It is the whole urban area that constitutes a social, cultural and economic unit, aside from whatever arbitrary political boundaries may subdivide this entity. The failure to think of the city as a whole in this context is a big part of the urban problem of the midcentury.

**code enforcement programs**—local housing code enforcement activities in areas small enough to be improved within three years. Federal assistance authorized in 1965 provides grants for from two-thirds to three-fourths of the cost of planning and carrying out housing code enforcement programs.

**COG**—council of governments—a voluntary association of local governments within a metropolitan area.

**community renewal program**—a program for carrying out urban renewal and related activities throughout a city, prepared with the assistance of Federal grants authorized in 1959.

**FHA**—Federal Housing Administration—an agency in the Department of Housing and Urban Development that insures private loans for (1) financing of new and existing housing, and (2) home repairs and improvements. It also administers rent supplements to low income families in private housing, and many recent programs for housing low- and moderate-income families.

**FCH**—Foundation for Cooperative Housing—one of the two major cooperative housing groups in the United States.

**FNMA**—"Fannie Mae"—Federal National Mortgage Association—buys and sells FHA-insured and Veterans' Administration-guaranteed loans to improve distribution of home mortgage funds. Its special assistance purchases support FHA Section 220 and 221 programs that are designed to help urban renewal redevelopment,

rehabilitation, and relocation activities. The Housing and Urban Development Act of 1968 divided FNMA into two separate corporations, one to manage the special assistance functions and the other to administer the secondary market operations. Until 1968, all of FNMA was part of the Department of Housing and Urban Development. The new FNMA is a "Government-sponsored private corporation."

### *Federal Housing legislation: Programs*

**Title I** (Housing Act of 1949)—loans and grants for slum clearance and redevelopment. As amended in 1954 the requirement for a workable program was set out, assistance was added for rehabilitation and neighborhood conservation, and the name of the program was changed to "urban renewal" to indicate the broader scope of activities that were eligible for Federal assistance.

**Title I** (National Housing Act of 1934)—FHA insurance of loans for property improvement.

### *Other programs known by their section numbers in the various acts:*

**Section 101**—provisions for rent supplements. Workable program or local approval required.

**Section 115**—grants for rehabilitation of owner-occupied homes in urban renewal and code enforcement areas.

**Section 117**—grants for code enforcement.

**Section 203**—direct loans for rental housing for elderly and handicapped.

**Section 203(b)**—mortgage insurance for homes, regular program.

**Section 207**—mortgage insurance for rental housing, regular program.

**Section 213**—mortgage insurance for cooperative housing.

**Section 220**—mortgage insurance for new and rehabilitated homes and rental housing in urban renewal areas.

**Section 220(h)**—insurance of loans for repair and rehabilitation of homes and multi-family housing in urban renewal and code enforcement areas.

**Section 221**—mortgage insurance for new or rehabilitated homes and rental housing for displaced families or low and moderate income families (40-year mortgages with no down payments at market interest rates).

**Section 221(d) (3)**—mortgage insurance for new or rehabilitated rental housing for displaced or low and moderate income families with mortgages bearing below market interest rates and purchased by FNMA under its special assistance program.

**Section 221(h)**—mortgage insurance for purchase and rehabilitation of housing for resale to low income families at below market interest rate financing.

**Section 231**—mortgage insurance for new and rehabilitated rental housing for the elderly and handicapped.



*Section 312*—rehabilitation loans for owners or tenants of homes or business property in urban renewal or code enforcement areas.

*Section 701*—grants to assist comprehensive urban planning and mass transportation planning.

*ghetto*—originally referred to that section of Rome where Jews were *made* to live. In medieval times they were legally forced to live there, and no other housing was available for them elsewhere in the city. The general lack of available housing elsewhere in urban areas describes our ghettos today. Although middle class Negroes and members of other minority groups can today exercise their option to live outside the ghetto, until fairly recently that option was rarely available. The fact that a majority of inner city Negro households are low income households means that most inner city ghettos are also slums.

*GNMA*—"Ginnie Mae"—Government National Mortgage Association—established by the Housing and Urban Development Act of 1968 as a corporation remaining within the Department of Housing and Urban Development which would retain the special assistance, management and liquidating functions formerly performed by FNMA.

*housing code*—a locally adopted ordinance, regulation, or code enforceable by police powers under the concept of health, safety and welfare, which specifies the minimum features which make dwellings or dwelling units fit for human habitation, or controls their use or occupancy.

*ICBO*—International Conference of Building Officials—one of the four national building code groups which publish and maintain a variety of model building and housing codes. The ICBO publishes the Uniform Building Code.

*inner city*—an urban area which does not necessarily have political, geographic, racial or economic outlines or boundaries, but an area which, in general, was a popularly recognized central shopping and residential part of a city prior to World War II.

*land use*—a term referring to the use of a lot or parcel of property; for example, a lot occupied by a factory is an industrial land use. The general categories of land uses include: residential, industrial, commercial, public, semi-public, and institutional. Also used as "land use policy" to describe a spectrum of policies related to the assembly and use of land.

*low income households*—include the categories of the "poor" and the "near poor" and would include families with annual incomes under \$4,500 (based on a four member household).

*moderate income households*—those with incomes greater than low income households, up to an amount whereby 20 to 25 percent of income would buy or rent standard housing. In average cost areas the needed income, for a family of four, would range from \$5,000 to \$6,500 a year, but would vary according to the cost of living in various areas.

*model cities*—refers to the Demonstration Cities and Metropolitan Development Act of 1965, now called model cities.

*NAHB*—National Association of Home Builders.

*NAHRO*—National Association of Housing and Redevelopment Officials.

*"near poor" or "deprived" households*—those households with annual incomes between \$3,300 and approximately \$4,500 (based on a four member household).

*neighborhood development program*—a new method of financing urban renewal activities authorized in 1968 to provide grant contracts to cover only one year's activities at a time.

*poor households*—those with annual incomes less than \$3,300 (based on a four member household).

*PHS*—U.S. Public Health Service.

*public housing*—the general term applied to housing for families and individuals of low income that has been financed, constructed and managed by a local public housing authority. Federal assistance for public housing first started in 1937. In 1949, Title III of the Housing Act provided (1) loans to help finance development and construction of housing units, and (2) annual contributions to hold rents at levels within the means of low income tenants. In addition, Federal assistance is available for purchase and rehabilitation, short term leasing, and contracts with private builders to purchase completed housing (known as "turnkey" public housing). These programs were administered by the Public Housing Administration, and are now under the Department of Housing and Urban Development, Housing Assistance Administration.

*redevelopment*—the development or improvement of cleared or undeveloped land in an urban renewal area.

*rehabilitation*—the restoration to good condition of deteriorated structures, neighborhoods, and public facilities, which may include repair, renovation, conversion, expansion, remodeling, or reconstruction.

*relocation*—Title I of the Housing Act of 1949, amended numerous times, required the preparation of a feasible plan for relocation of families or individuals to decent, safe and sanitary dwellings.

*SMSA*—standard metropolitan statistical area—a county or group of contiguous counties (except in New England) which contains at least one central city of 50,000 inhabitants or more, or twin cities with a combined population of at least 50,000. In addition, other contiguous counties are included in an SMSA if, according to certain criteria, they are essentially metropolitan in character and are socially and economically integrated in the central city. In New England, towns and cities rather than counties are used in defining SMSA's.

*special districts*—the myriad of school, water, highway, and sewer districts, and other units of government with power to tax and spend for particular purposes. Their boundaries are seldom identical with the political boundaries of cities, townships or counties, and their existence helps create chaotic local governmental conditions.

*slum*—a primarily residential area in which run-down housing provides shelter for the poor and the deprived.

*tax credit*—a credit against the actual taxes owed, as opposed to a deduction from taxable income before the taxes are calculated. It is generally viewed unfavorably by tax experts, both because of the loss of revenue and because of the imprecision with which it can be applied.

*turnkey*—term applied to public housing provided by a housing authority's purchase of privately produced construction from the builder, who follows general requirements instead of minutely detailed Federal specifications. It is also used in the provision of rehabilitated private housing for public housing tenancy.

*unit of housing*—the entire dwelling unit occupied by a person or family, whether a house or apartment, single room or multi-roomed, owned or rented.



*UHF*—United Housing Federation—one of the two major cooperative housing groups in the country.

*urban renewal*—the general term applied to public and private efforts to improve cities by sound planning, elimination of blight, restoration of basically sound neighborhoods, installation of adequate public facilities, such as schools and streets, improvements of public institutions, revitalization of central business districts, and provision of proper sites for industrial plants within cities. Federal assistance for urban renewal has covered all these activities, but it has emphasized the elimination of slums.

*VA*—Veterans' Administration.

*workable programs*—a locality's statement of where it stands today and what it will strive to do to remove slums and blight, block their return, and achieve orderly community growth. The Housing Act of 1954 established the workable program as a prerequisite for Federal assistance for urban renewal. The Department of Housing and Urban Development must certify that the workable program meets its requirements with regard to codes and ordinances, a comprehensive general plan, neighborhood analysis, administrative organization, financing, and relocation of families displaced by government action, and for citizen participation.

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#### HEARING WITNESSES

At Baltimore: James W. Rouse, Mr. and Mrs. Hans Froelicher, Edgar M. Ewing, Theodore R. McKeldin, the Reverend Sidney Daniels, Robert G. Deitrich, Judge Mary Arabian, Howard Offit, Mrs. Juanita J. Mitchell, Thomas D'Ales-

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At Pittsburgh: Sidney Marland, Raymond L. Richman, Mason Gaffney, A. M. Woodruff, Joseph M. Barr, A. Alan Schmid, Jerome Rothenberg, Seymour Baskin, Percy R. Williams, John C. Weaver, Nathan Schwartz.

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At Washington: The Reverend Walter E. Fauntroy, Arthur Morgan, Jeanne Lowe, J. C. Turner, Delores Glenmore, Mrs. Elvie M. Washington, John Howard, Watha Daniels, Mrs. Dorothy Lynn, Judge Marjorie Lawson, Andrew Mack, William B. Widnall, Hunter Moss, Marion Clawson, Robert A. Simon, Jr., Sol Rabkin, George Frain, Carl Feiss, Richard Bolling, Royce Hanson, Walter A. Scheiber, Ralph Taylor, Mary Nenno, William Slayton.



# Part I. The Urban Setting: Population, Poverty, and Race

The urban problems this Commission has studied are directly related to the size and nature of the American population, its distribution and mobility, and the social and economic handicaps faced by certain of its segments. Shortages of housing, difficulties of urban financing, jurisdictional gaps and conflicts among local governments, harmful zoning and land-use policies—all these arise directly or indirectly from the increasing number of people, their residential locations and their ability to move to other locations.

The findings and recommendations which constitute this report of the Commission are based in part on the analyses and projections regarding population, poverty, and race which are summarized below.

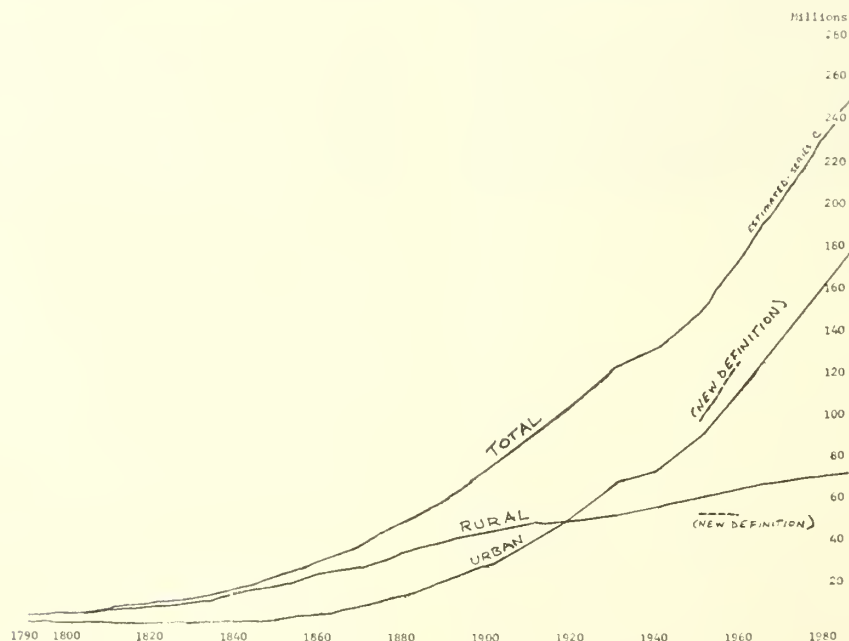
## THE CHANGES IN OUR POPULATION

### *The population explosion*

The first national census, in 1790, counted 4 million persons in the new Nation. Now, at the end of 1968, the population exceeds 200 million, and it may reach 300 million by the end of the century—only 30 years away.

As Chart I demonstrates, the steady growth in U.S. population has slowed markedly only once—during the great depression. The annual growth rate dropped to a low of 0.7 percent in 1936, rose to a high of 1.83 percent in 1947, rose again to 1.81 in 1956, and has declined steadily since. The 1967 rate was 1.07 percent. (See table 29.)

CHART I.—Total U.S. population, urban and rural, 1790–1960 and estimated 1985.  
(Sources listed on p. 41.)



The population study<sup>1</sup> upon which our discussion is based relies on the next-to-lowest census projection of the birth rate.<sup>2</sup> Even on this conservative basis, the study projects a 41 percent increase in population from 1960 to 1985.

The nonwhite population has a higher birth rate than the white population and will, if present trends continue, increase more rapidly in all regions; by 1985, it will form almost 14 percent of the population. The rate of increase in the South will be masked by the rate of departure; because of its already high nonwhite population, however, the South will (according to recent trends) have the largest absolute increase in nonwhite population—39 percent of the entire

Sources to chart 1 on p. 39.

1790-1940:

*Historical Statistics of the United States, Colonial Times to 1957*, U.S. Bureau of the Census, Department of Commerce, Government Printing Office, Washington, D.C.

Series A, 195-209, Population in Urban and Rural Territory, by Size of Place: 1790 to 1950, and

Series A, 20, Population of Continental United States, 1790 to 1950.

1950, 1960: *Statistical Abstract of the United States, 1967*, Table No. 13, Urban and Rural Places and Population, by Size of Place, 1910 to 1960.

1985 Estimate: Patricia L. Hodge and Philip M. Hauser, *The Challenge of America's Metropolitan Population Outlook—1960 to 1985*, Research Report No. 3 for the National Commission on Urban Problems, 1968, Table II-2 (based on U.S. Census of Population, 1960).

Definitions of urban areas:

1960 Census definition: (a) all persons in incorporated places of 2500 or more, (b) the densely-settled urban fringe, incorporated or not, of urban areas, (c) towns in New England and townships in New Jersey and Pennsylvania, of a certain population, (d) counties, elsewhere, with no incorporated municipalities and a certain density, and (e) unincorporated places of 2500 or more.

1950 definition: substantially the same except not including (e) above.

1940 definition: for the most part, cities and other incorporated places with 2500 or more population, plus townships and other unincorporated subdivisions with 10,000 or more population and densities of 1000/sq. mile and certain towns in Mass., R.I., and N.H. This definition is substantially as adopted in 1910.

Rural areas are those not included in urban areas, so the above changes in the urban definitions also alter the rural definition.

<sup>1</sup> Patricia L. Hodge and Philip M. Hauser, "The Challenge of America's Metropolitan Population—1960 to 1985," Research Report No. 3, National Commission on Urban Problems, U.S. Government Printing Office, Washington, D.C., 1968.

<sup>2</sup> The Bureau of the Census has presented four series of population projections, the "A" series assuming the highest birth rate, the "D" series the lowest. This report utilizes the "C" series. The authors of the Commission's study felt that the "best" of the four 1985 Census projections was the one employing the next-to-lowest birth rate. They preferred this to the lowest on the ground that the large numbers of children born during the post-war baby boom are just now approaching marriage, and it is not yet possible to predict with any certainty that the total number of children they will bear will be fewer than those born by the "wave" preceding them.

nonwhite increase in the United States. (The nonwhite population is 92 percent Negro, but also includes Orientals, American Indians, Polynesians, Eskimos, and other races. Puerto Ricans and Mexican-Americans are classified as white in census data.)

TABLE 1.—U.S. POPULATION BY REGION AND COLOR; 1960 AND PROJECTED 1985  
[Population in thousands]

Region and color	Population 1960	Population 1985	Percent increase	Percent distribution, by color, 1985
United States.....	179,323	252,185	40.6	100.0
White.....	158,832	217,714	37.1	86.3
Nonwhite.....	20,491	34,471	68.2	13.7
Northeast.....	44,678	58,517	31.0	100.0
White.....	41,522	52,269	25.9	89.3
Nonwhite.....	3,156	6,248	98.0	10.7
North central.....	51,619	65,723	27.3	100.0
White.....	48,003	59,228	23.4	90.1
Nonwhite.....	3,616	6,495	79.6	9.9
South.....	54,973	78,910	43.5	100.0
White.....	43,477	62,016	42.6	78.6
Nonwhite.....	11,496	16,894	47.0	21.4
West.....	28,053	49,035	74.8	100.0
White.....	25,830	44,201	71.1	90.1
Nonwhite.....	2,223	4,834	117.5	9.9

Source: Patricia L. Hodge and Philip M. Hauser, "The Challenge of America's Metropolitan Population Outlook, 1960 to 1985," Research Rept. No. 3, National Commission on Urban Problems, Washington, D.C., 1968, p. 19.

Recently released census figures, based on a population sampling in March 1968, reveal a tendency toward a more even distribution of the Nation's nonwhite population over the period 1940 to 1968.

TABLE 2.—PERCENT DISTRIBUTION OF THE NEGRO<sup>1</sup> POPULATION BY REGION  
1940, 1950, 1960, 1966, and 1968

	1940 <sup>2</sup>	1950 <sup>2</sup>	1960	1966	1968
United States.....	100	100	100	100	100
Northeast.....	11	13	16	17	18
North central.....	11	15	18	20	22
South.....	77	68	60	55	53
West.....	1	4	6	8	8

<sup>1</sup> Includes only the 92 percent of nonwhite population which is Negro.

<sup>2</sup> Data exclude Alaska and Hawaii.

Note: Percentages may not add to 100 percent because of rounding.

Source: "Recent Trends in Social and Economic Conditions of Negroes in the United States," U.S. Department of Commerce, Bureau of the Census, series P-23, No. 26, BLS Rept. No. 347, July 1968.

### *The population implosion*

The change from a predominantly rural to a predominantly urban nation occurred about five decades ago. (See table 30.) At the time of the first census in 1790, 95 percent of the people lived on farms, or in places of less than 2,500 inhabitants. Only 5 percent lived in urban places of 2,500 or more. The 1920 census showed that America had become an urban nation: a majority lived in urban areas. The concentration of people on relatively small portions of land—even the sprawling suburbs are dense compared to rural areas—has been described as an implosion.

By 1960, 70 percent of the population lived in urban places, and 63 percent lived in metropolitan areas. The metropolis, or the SMSA,<sup>3</sup> has come to characterize the pattern of American settlement. Roughly defined, it encompasses a city of more than 50,000 and the counties which contain it and maintain a certain economic and social dependence on it. The suburban counties, may, and often do, contain rural "pockets," but the preponderance of metropolitan population lives in settlements with an urban character. (The term "central city" refers to a municipality of 50,000 or more at the center of the metropolis; it is a political jurisdiction, and should not be confused with "downtown," "core," or "slum area.")

It is estimated that 71 percent of the total U.S. population will live in metropolitan areas by 1985. Most of the projected population growth—65.2 million, or 80.6 percent of it—will occur inside all metropolitan areas as defined in 1967.

Table 3, based on recent trends, shows that in the next 16 years the South—the only section of the country which is now about evenly split between urban and rural population—will probably make the greatest leap toward urbanization. The West is expected to join the already highly urban Northeast as a region which is four-fifths metropolitan. (Table 31 details population projections by region for 1985.

TABLE 3.—PERCENT OF POPULATION IN METROPOLITAN AREAS BY REGION; 1960 AND PROJECTED 1985

Region and metropolitan status	1960	1985	Change
United States:			
Metropolitan.....	63.0	70.6	+7.6
Nonmetropolitan.....	37.0	29.4	-7.6
Northeast:			
Metropolitan.....	79.1	80.9	+1.8
Nonmetropolitan.....	20.9	19.1	-1.8
North central:			
Metropolitan.....	60.0	67.9	+7.9
Nonmetropolitan.....	40.0	32.1	-7.9
South:			
Metropolitan.....	48.1	58.5	+10.4
Nonmetropolitan.....	51.9	41.5	-10.4
West:			
Metropolitan.....	71.8	81.6	+9.8
Nonmetropolitan.....	28.2	18.4	-9.8

Source: Hodge-Hauser, op. cit., p. 9.

### *Loss of population dominance by the central city*

Geographically the city, in the old sense of a concentrated urban settlement, is eating up more and more of the countryside. In fact, large met-

<sup>3</sup> A Standard Metropolitan Statistical Area (SMSA) is "a county or group of contiguous counties (except in New England, towns and cities rather than counties are used in defining inhabitants or more or twin cities with a combined population of at least 50,000. In addition, other contiguous counties are included in an SMSA if, according to certain criteria, they are essentially metropolitan in character and are socially and economically integrated with the central city. In New England, towns and cities rather than counties are used in defining SMSA's." U.S. Bureau of the Census, *Statistical Abstract of the United States: 1967*. (88th edition) Washington, D.C., 1967.

ropolitan areas have begun to meet at their fringes, and the term *megapolopolis* has been invented to describe clusters of metropolitan areas. The traditional image of the large central city surrounded by peripheral territory and scattered small towns is, in most instances, no longer valid. The jurisdictions outside the central city are growing rapidly, while growth of the central city has slowed sharply. If present trends are projected, central cities will grow in population by only about 13 percent by 1985, but the suburban rings will grow by 106 percent. Put another way, 89 percent of all metropolitan growth will be in the suburbs.

Table 4 shows how the balance of population growth has gradually shifted since the 1900's from the city to the suburb. This parallels the population trend from predominantly rural to predominantly urban, and both trends have been associated with the advent of the automotive age.

TABLE 4.—PERCENT OF GROWTH WITHIN METROPOLITAN AREAS, 1900-1960

	Metropolitan total	Central city *	Suburban ring
1900-1910.....	32.0	37.1	23.6
1910-20.....	25.0	27.7	20.0
1920-30.....	27.1	24.3	32.3
1930-40.....	8.8	5.6	14.6
1940-50.....	22.6	14.7	35.9
1950-60.....	26.3	10.7	48.5

\* The projections for central cities are within fixed geographic boundaries of 1960, making no allowance for annexations or city-county consolidations between 1960-1985. See Hodge-Hauser, op. cit., Methodology, p. 85.

Source: U.S. Census of Population, 1960: Standard Metropolitan Statistical Areas, PC(3)-1D, table 1.

Presumably by the late 1960's, these trends already tipped the balance of metropolitan population in favor of the suburbs. In 1950, 41 percent of the people in metropolitan areas lived in suburbs; by 1960 that share was up to 49 percent, and the figure projected for 1985 is 63 percent.

TABLE 5.—PERCENT OF METROPOLITAN AREA POPULATION IN THE SUB-URBAN RING, BY REGION, 1950, 1960, AND PROJECTED 1985

	1950 <sup>1</sup>	1960 (A) <sup>1</sup>	(B) <sup>2</sup>	Projected, 1985 <sup>3</sup>
United States.....	41	53	49	63
Northeast.....	43	51	51	61
North central.....	37	50	47	63
South.....	40	53	43	60
West.....	49	61	55	69

<sup>1</sup> In terms of 1950 boundaries of central cities, within SMSA's as defined in 1960.

<sup>2</sup> In terms of 1960 boundaries of central cities, within SMSA's as defined in 1960.

<sup>3</sup> In terms of 1960 boundaries of central cities, within SMSA's as defined in 1967.

Note: To the extent of central city annexations between 1960 and 1985, the projected proportions would be reduced.

Source: Hodge-Hauser, op. cit., p. 14.

### *No longer a melting pot*

The dominant central city of earlier decades contained within it a broadly diverse ethnic,



racial, and economic mix. The recent trend, however, has been for these various groups to settle out into separate political jurisdictions. Within the metropolis, the central city retains most of the nonwhites and the majority (63 percent) of the metropolitan poor. Among the separate suburban jurisdictions, social and economic differences are often accentuated by the development of such homogeneous units as the low-income suburb, the industrial enclave, and the affluent commuter community.

*Separation of color.*—The central cities, which already contain half of the Nation's nonwhite population, will contain an even greater share of the nonwhite residents in the future if the trends of the last few decades are maintained. Projections of these trends indicate, however, that while the percentage of nonwhites would almost double between 1960 and 1985 in the central cities, it would rise only slightly in the suburbs. The South would remain the region of highest nonwhite central city concentration, but other regions would not be far behind by 1985. (See table 32 for a more detailed breakdown.)

TABLE 6.—PERCENT OF U.S. POPULATION THAT IS NONWHITE, IN CENTRAL CITY AND SUBURBAN RING, BY REGION, 1960 AND PROJECTED 1985

Region and residence	Percent non-white, 1960	Percent non-white, 1985
United States:		
Central city .....	17.8	30.7
Ring .....	5.2	6.1
Northeast:		
Central city .....	13.8	26.4
Ring .....	3.1	3.7
North central:		
Central city .....	17.1	32.0
Ring .....	2.8	2.2
South:		
Central city .....	26.0	38.8
Ring .....	11.7	13.2
West:		
Central city .....	13.0	23.3
Ring .....	4.9	5.3

Source: Hodge-Hauser, *op. cit.*, p. 31.

If past trends persist, by 1985 more than three-fourths of the Nation's Negroes will live in metropolitan areas, and 58 percent of them will live in the central cities. The average will be far higher outside the still largely rural South.

TABLE 7.—CONCENTRATION OF U.S. NONWHITE POPULATION BY REGION, 1960 AND PROJECTED 1985

Region	In metropolitan areas <sup>1</sup>		In central cities of metropolitan areas	
	1960	1985	1960	1985
United States .....	64.4	78.3	50.5	58.4
Northeast .....	93.9	94.5	76.0	77.4
North central .....	89.7	91.5	78.8	81.9
South .....	45.7	63.9	34.1	42.2
West .....	77.9	89.6	53.5	59.1

<sup>1</sup> 1960 boundaries of SMSA's used for 1960; 1967 boundaries used for 1985.

Source: Hodge-Hauser, *op. cit.*, p. 28.

In 1960, 78.5 percent of the nonwhites in metropolitan areas lived in central cities. Thus, more than 1 out of 5 nonwhites lived in the suburbs, but formed only 5 percent of the suburban population.<sup>4</sup>

There is limited recent evidence of some shift in the long-term trends upon which the foregoing projections are based. The Census Bureau's sample survey during the first quarter of 1968 reports a leveling off in the increase of Negro population in metropolitan central cities between 1966 and 1968, changing the ratio of Negroes to whites in central city and suburbs. But this apparent shift in trend would have to deepen and grow to change the prospects sharply.

*Separation by income level.*—Suburbs tend to have a larger proportion of middle- and upper-income residents than do their central cities, and a smaller percentage of families below the poverty level. The pattern is not a simple one and varies with the size of the metropolitan area. In the five largest SMSA's (population 3 million or more)—New York, Los Angeles-Long Beach, Chicago, Philadelphia, and Detroit—the separation by income level is much sharper than the nationwide average. (See also table 10 in part IV, chapter 8.)

TABLE 8.—PERCENT OF FAMILIES WITHIN CENTRAL CITIES AND SUBURBS WITH INCOMES UNDER \$3,000 OR OVER \$10,000 IN METROPOLITAN AREAS IN 1959

Families by income	Central city	Suburban ring
Less than \$3,000 income .....	17.6	12.5
More than \$10,000 income .....	16.5	21.2

Source: U.S. Bureau of the Census, U.S. Census of Population, 1960: Selected Area Reports, Standard Metropolitan Statistical Areas, Final Report PC(3)-1D, quoted in "Fiscal Balance in the American Federal System," Advisory Commission on Intergovernmental Relations, Washington, D.C. 1968.

## THE IMPACT OF POPULATION CHANGES

### *Black majorities*

The study made for the Commission indicates the prospect of a further net drop in the white population of metropolitan central cities and a further rise in the nonwhite population.

Continuation of recent trends would produce Negro majorities by 1985 in New Orleans, Richmond, Chicago, Philadelphia, St. Louis, Detroit, Cleveland, Baltimore, and Oakland. Already, Newark, Gary, and Washington, D.C., are more than half Negro.<sup>5</sup>

In the absence of conscious, emphatic public policy, there appears to be little likelihood of a major shift in nonwhite population from central city to suburb. Recent Census Bureau figures

<sup>4</sup> Hodge-Hauser, *op. cit.*, p. 26.

<sup>5</sup> Report of the National Advisory Commission on Civil Disorders, U.S. Government Printing Office, Washington, D.C., March 1, 1968, p. 216.

show the nonwhite proportion in the suburbs holding steady at about 5 percent, and the Commission study projects a rise to only 6.1 percent by 1985. Moreover, even the slight movement of Negroes to the suburbs is likely to involve those who already are at a relative economic and social advantage, thereby reinforcing the trend toward concentration of the poor and socially handicapped in the central cities.

### *Suburban population dominance*

According to the latest Census Bureau figures, the central city has gone in 8 years from a nationwide numerical advantage over the suburbs to a distinct disadvantage—from 105 percent of the suburb's population to only 84 percent.<sup>6</sup> If the trends of recent years persist, it will decline to about 58 percent by 1985. (A relative disadvantage will hold true in every region, ranging from 44 percent to 66 percent.)<sup>7</sup>

The political effects are difficult to predict with certainty, because there are two opposing trends:

On the face of it, in terms of numbers of voters, the balance of political power has shifted to the suburbs, and where their interests are as one, they may be expected to make their weight felt at the statehouse, in Congress, and in national elections.

On the other hand, the suburban ring is fragmented into many separate political jurisdictions, often with sharply different social and economic characteristics, as noted before. In the decades to come, it is likely that many large suburban cities will find more in common with the central city than with other, smaller suburbs. The giant metropolitan complexes of the future will include large outlying municipalities, "suburbs" in name only, some of which will be more populous than many present-day central cities (there were 83 suburban municipalities with a population of over 50,000 in 1960).<sup>8</sup> Even now many such suburban cities are suffering almost the full range of urban problems.

### *Changes in the age structure*

Not only the size of population, but the size of various age groups will affect every facet of American life. Even with a declining birth rate, the United States will have an increase in the total population by 1985, and an increase in each age group, although the increases will be most notable for the 15-44 and over-65 age groups.

Almost all of the persons in these two age categories had already been born in 1968. There will be a sizable increase by 1985 in the number of young people, especially nonwhite young peo-

ple, at the most vigorous age. Taken with the projected continued concentration of the poor and the nonwhites in the central cities, this is one of the most potentially important domestic trends of the next several decades.

TABLE 9.—PERCENT INCREASES IN TOTAL AND IN NONWHITE POPULATION BY AGE GROUP, IN UNITED STATES AND IN METROPOLITAN AREAS, 1960-85

	Total	Under 15	15-44	45-64	65 and over
United States.....	40.6	30.5	57.2	19.0	50.8
Nonwhites.....	68.2	59.5	91.8	33.5	63.4
Total SMSA.....	57.8	49.1	74.0	31.3	75.5
Nonwhites.....	104.5	100.7	123.9	60.4	118.8
Total central city.....	12.7	13.9	24.9	-11.5	13.3
Nonwhites.....	94.5	91.8	112.4	52.5	108.7
Total suburban ring.....	105.9	81.1	125.2	84.7	164.5
Nonwhites.....	140.7	131.4	167.0	91.3	154.6

Source: Hodge-Hauser, op. cit., pp. 36 and 42.

### THE POOR IN AMERICA

The number of Americans living in poverty<sup>9</sup> is declining while the total population continues to grow. About 13 million fewer persons were poor in 1967 than in 1959, and the percentage of the poor in the total population dropped from 22.1 percent to 13.3 percent during the same period. This is a remarkable but little-noted achievement—a 33-percent reduction in the number of the poor in less than a decade, and an even greater proportional decrease when the rise in the population is taken into account.

Despite this notable rate of progress, almost 26 million persons remain in poverty, and many of them are the "hard-core poor" whose circumstances are not readily improved by traditional antipoverty measures. However, the same

TABLE 10.—INCIDENCE OF POVERTY, SELECTED YEARS, 1959-67

	Number of individuals below poverty level	Percent below poverty level
1959.....	38,940,000	22.1
1963.....	35,290,000	18.9
1966.....	29,657,000	15.3
1966 <sup>1</sup> .....	28,781,000	14.9
1967 <sup>1</sup> .....	25,929,000	13.3

<sup>1</sup> Using a revised definition which reflects improvements in statistical procedures used in processing the income data.

Source: U.S. Department of Commerce, Bureau of the Census, "Family Income Advances, Poverty Reduced in 1967," Series P-60, No. 55, Aug. 5, 1968, table 2, p. 4.

<sup>9</sup> The definition of poverty used in this chapter is that developed by the Social Security Administration. It is an income measurement taking into account family size, number of children, and farm-nonfarm residence. The basis of the poverty income determination is the nutritionally sound "economy" food plan designed by the Department of Agriculture for "emergency or temporary use when funds are low." The income measurement is based on the assumption that a family should spend no more than a third of its income on food. The poverty thresholds are adjusted annually to reflect changes in price levels. For 1966 a nonfarm family of four would be classified as poor if its income was \$3,335 or below.

<sup>6</sup> "Recent Trends in Social and Economic Conditions of Negroes in the United States," U.S. Department of Commerce, Bureau of the Census, Series P-23, No. 26, July, 1968, p. 4.

<sup>7</sup> Hodge-Hauser, op. cit., pp. 14 and 16.

<sup>8</sup> 1960 Census of Population, vol. 1, table V, pp. 1-11.



assumption might have been made for the 39 million poor in 1959; more progress may be possible than has previously been thought.

### Who are the poor?

Certain groups are readily identifiable as major components of the poverty population—nonwhites, the aged, members of female-headed families, members of large families, and members of families whose heads are unemployed or underemployed.

*The white and nonwhite poor.*—There are twice as many whites as nonwhites<sup>10</sup> in the Nation's total poverty population, but the incidence of poverty is much higher among nonwhites than among whites. In 1967, 41 percent of the nonwhite population was poor, compared with 12 percent of the white population. Nonwhites thus constitute a far larger share of the poverty population (31 percent) than of the American population as a whole (12 percent). Moreover, the nonwhite proportion of the poverty population has been increasing, slowly but steadily, since the first racial count was made in 1959; it was 28 percent then, and 32 percent by 1967.<sup>11</sup>

TABLE 11.—PERSONS BELOW THE POVERTY LEVEL, 1959–1967

Year:	Number (in millions)		Percent of respective population	
	Nonwhite	White	Nonwhite	White
1959.....	10.7	28.2	55	18
1960.....	11.4	28.7	55	18
1961.....	11.6	26.5	55	17
1962.....	11.6	25.4	54	16
1963.....	11.2	24.1	51	15
1964.....	10.9	23.4	49	14
1965.....	10.5	21.4	46	13
1966.....	9.6	20.1	41	12
Based on revised methodology:				
1966.....	9.3	19.5	40	12
1967.....	8.3	17.6	35	10

Source: U.S. Department of Commerce, Bureau of the Census, and U.S. Department of Health, Education, and Welfare, Social Security Administration.

<sup>10</sup> Statistics for the "nonwhite" population include more than Negroes but can be taken as a general measurement of the Negro population since Negroes form about 92 percent of the nonwhite population. Statistics for areas with high concentrations of Japanese and Chinese as well as Negroes can, however, be misleading, for Chinese and Japanese are at the opposite end of the spectrum from Negroes for almost all economic and social data. As Daniel Moynihan points out in "Employment, Income, and the Ordeal of the Negro Family," (*Daedalus*, Fall 1965, p. 769), "Japanese and Chinese have twice as large a proportion of their population going to college as do whites; Negroes have a little less than half. Negroes have twice as high a rate of unemployment as do whites; Chinese and Japanese have half. In 1960, 21 percent of Negro women who had ever married were separated, divorced, or had their husband absent for other reasons, as against 6 percent of Chinese. A consequence of these figures is that statistics for nonwhites generally understate the degree of unemployment among Negroes as well as the extent of family disorganization, and the gap that separates them from the white world."

On the other hand, the "white" category includes Puerto Ricans and Mexican-Americans, who are socio-economically similar to Negroes in many respects. The latter distortion is not as statistically significant, however, because the number of whites so far exceeds the number of nonwhites.

<sup>11</sup> "Family Income Advances, Poverty Reduced in 1967," U.S. Department of Commerce, Bureau of the Census, Series P-60, No. 55, August 5, 1968, p. 4, table 2.

Both nonwhite and white poor are declining, however, both in numbers and in percentages of total population.

*The aged.*—Persons aged 65 years or over made up 18 percent of the 29.7 million poor in 1966, although this age group formed only 7 percent of the total population.

The aged bear a disproportionate share of the poverty burden. One obvious reason is that fewer of them are in the labor force. Another is that women are likely to be poorer than men at all ages, and women form a greater proportion of those 65 and older than they do of any other age group. Almost two-thirds of the aged poor are women.

Persons living alone also are more likely to be poor than those who live in or with a family, and a majority of the elderly poor live alone or with just one other person. The number is increasing: between 1959 and 1966, the number of elderly men and women living alone or with nonrelatives rose by one-third. Paradoxically, this is probably partly a reflection of rising income (from social security benefits and related programs) so that "more of them had enough to try going it alone, choosing privacy, albeit the privacy of poverty, rather than being an 'other relative' in the home of their children."<sup>12</sup>

TABLE 12.—LIVING ARRANGEMENTS OF AGED NONINSTITUTIONAL POPULATION IN MARCH, 1967, BY SEX AND POVERTY STATUS IN 1966

	Incidence of poverty (percent)	Total (in millions)	
		In poor house- holds	
All aged 65 or over.....	29.9	17,937	5,372
Living alone.....	55.3	4,878	2,697
In family units.....	20.5	13,059	2,675
Men.....	24.9	7,784	1,934
Living alone.....	44.0	1,285	565
In family units.....	21.1	6,499	1,369
Women.....	33.9	10,152	3,437
Living alone.....	59.3	3,583	2,132
In family units.....	19.9	6,559	1,305

Source: "Counting the Poor: Before and After Federal Income-Support Programs," by Mollie Orshansky, 1966, as reprinted from Joint Economic Committee Print, "Old-Age Income Assurance, pt. II: The Aged Population and Retirement Income Programs," December 1967, table 13, p. 109.

*The large poor family.*—In 1966 a child in a large family (five or more children) was 3½ times as likely to be poor as the child in a one- or two-child family. Almost half of the poor children were in families with five or more children.<sup>13</sup> The number of large poor families has diminished slightly since 1959, when there were 1.1 million such families. In 1966 there were 0.9 million, and indications in the March 1968 sam-

<sup>12</sup> Mollie Orshansky, "The Shape of Poverty, 1966," reprinted from the Social Security Bulletin, U.S. Department of Health, Education and Welfare, U.S. Government Printing Office, Washington, D.C., March 1968, p. 8.

<sup>13</sup> *Ibid.*, p. 9.



ple survey of the census are that the number had decreased to 0.8 million in 1967.<sup>14</sup>

A growing proportion of the children in these families, however, suffered the added disadvantage of lacking a father—18 percent in 1959, 29 percent in 1966, and 34 percent in 1967.<sup>15</sup> Moreover, in 1967, the sample showed that 48 percent of the large poor families were nonwhite (although nonwhite form only 12 percent of the total population). The majority (65 percent) of these nonwhite families were headed by women.<sup>16</sup>

TABLE 13.—COMPOSITION OF ALL FAMILIES, SELECTED YEARS, 1950 TO 1968

Year	(Percent)					
	Husband-wife		Other male head		Female head <sup>1</sup>	
	Non-white	White	Non-white	White	Non-white	White
1950.....	77.7	88.0	4.7	3.5	17.6	8.5
1955.....	75.3	87.9	4.0	3.0	20.7	9.0
1960.....	73.6	88.7	4.0	2.6	22.4	8.7
1966.....	72.7	88.8	3.7	2.3	23.7	8.9
1967.....	72.6	88.7	3.9	2.1	23.6	9.1
1968.....	69.1	88.9	4.5	2.2	26.4	8.9

<sup>1</sup> Female heads of families include widowed and single women, women whose husbands are in the armed services or otherwise away from home voluntarily, as well as those separated from their husbands through divorce or marital discord. In 1968, divorce and separation accounted for 47 percent of the nonwhite female family heads and 34 percent of the white.

Source: U.S. Department of Commerce, Bureau of the Census.

*Households headed by a woman.*—Households, even small ones, headed by women seem particularly prone to poverty. Between 1959 (the first year for which poverty family statistics are available) until 1966, the incidence of poverty for female-headed households dropped slightly, but improvement has not been nearly as great as that for households headed by men. And the proportion of poor households headed by a female seems to be growing. In 1959, of all poor households, 5.4 million were headed by women and 8 million by men. By 1966 the number of poor households headed by men had dropped by 2.4 million but the number headed by women stayed about the same, so that women-headed households accounted for almost half of all poor families.<sup>17</sup>

In 1966, of the total number of female-headed families in the country, 35.0 percent were poor, while 9.8 percent of male-headed families lived in poverty.<sup>18</sup> A breakdown of figures by race reveals the far worse plight of the nonwhite family headed by a woman. In 1966, in the Nation as a whole, 60.2 percent of all nonwhite female-headed families lived in poverty as compared

with 27.7 percent of white female-headed families. And the percentage of nonwhite families headed by a female appears to be growing.

*The unemployed and the underemployed.*—Poverty measured by income obviously has a close relationship to employment. And, as one might expect, a profile of the unemployed is similar to that of the poor population itself.

a. *Race.*—The higher incidence of poverty among nonwhites is accompanied by an unemployment rate that has been at least twice that of whites since 1954.

The special disadvantage of the Negro in regard to employment appears to have accompanied his move to urban areas. In 1940 (when 41 percent of Negro males were employed in agriculture, where unemployment rates were low) the nonwhite unemployment rate was slightly less than the white rate. It should be noted, however, that while unemployment rates in agriculture were low, so were wages, so that employment did not necessarily spell economic well-being. Furthermore, in agriculture, underemployment is almost as serious a problem as unemployment. Negroes were leaving the farms, however. Since 1930 the proportion of Negroes living in cities has nearly doubled. So by 1960 only 9.1 percent of the experienced nonwhite labor force remained in agriculture.<sup>19</sup>

The lowest point of Negro unemployment reached in the years since World War II was 4.5 percent in 1953, but with the end of the Korean war the rate doubled and then remained high throughout the 1950's and early 1960's. In 1958 and 1961, both recession years, nonwhite unemployment rose above 12 percent. Since 1954 the 2 to 1 unemployment ratio has become a stubborn economic fact of life. (See table 14.)

b. *Youth.*—An important development is the very high rate of teenage unemployment—especially high for nonwhite teenagers. This could prove to be an increasingly explosive problem if the population projections cited earlier in this chapter are borne out.

In 1948 the Negro teenage unemployment rate was 7.6 percent, compared to a white teenage rate of 8.3 percent. The white rate has since increased somewhat, but the rate for nonwhite teenagers has more than tripled.

c. *Women versus men.*—Among the poor, women outnumbered men by 8 to 5 in 1966—a ratio that reached 2 to 1 for those above age 65. Women at the head of families were three and a half times as likely to be poor as male family heads, and they were even more dis-

<sup>14</sup> "Family Income Advances, Poverty Reduced in 1967," *op. cit.*, p. 7, table 7.

<sup>15</sup> According to a preliminary Census Survey.

<sup>16</sup> "Family Income Advances, Poverty Reduced in 1967."

<sup>17</sup> "The Shape of Poverty, 1966," p. 5, table 2.

<sup>18</sup> *Ibid.*, p. 11, table 6.

<sup>19</sup> Daniel P. Moynihan, "Employment, Income, and the Ordeal of the Negro Family," *Dacalatus*, Journal of the American Academy of the Arts and Sciences, Fall 1965, p. 751.

TABLE 14.—UNEMPLOYMENT RATES,<sup>1</sup> 1948-67, AND 1968 (FIRST 6 MONTHS)

	Nonwhite	White	Ratio: Nonwhite to white
1948	5.2	3.2	1.6
1949	8.9	5.6	1.6
1950	9.0	4.9	1.8
1951	5.3	3.1	1.7
1952	5.4	2.8	1.9
1953	4.5	2.7	1.7
1954	9.9	5.0	2.0
1955	8.7	3.9	2.2
1956	8.3	3.6	2.3
1957	7.9	3.8	2.1
1958	12.6	6.1	2.1
1959	10.7	4.8	2.2
1960	10.2	4.9	2.1
1961	12.4	6.0	2.1
1962	10.9	4.9	2.2
1963	10.8	5.0	2.2
1964	9.6	4.6	2.1
1965	8.1	4.1	2.0
1966	7.3	3.3	2.2
1967	7.4	3.4	2.2
1968 (First 6 months seasonally adjusted)	6.8	3.2	2.1

<sup>1</sup> The unemployment rate is the percent unemployed in the civilian labor force.

Source: U.S. Department of Labor, Bureau of Labor Statistics, as published in "Recent Trends in Social and Economic Conditions of Negroes in the United States," July 1968.

TABLE 15.—UNEMPLOYMENT RATES AND TOTAL FIGURES FOR TEENAGERS (AGED 16-19), BY COLOR, 1957-67

	White		Nonwhite	
	Rate (percent)	Total	Rate (percent)	Total
1957	10.6	401,000	19.1	96,000
1958 <sup>1</sup>	14.4	541,000	27.4	138,000
1962	13.3	580,000	25.3	142,000
1963	15.5	708,000	30.3	176,000
1964	14.8	708,000	27.3	165,000
1965	13.4	705,000	26.5	171,000
1966	11.2	651,000	25.4	186,000
1967	11.0	633,000	26.3	202,000

<sup>1</sup> 1958 marked the beginning of a new era of higher unemployment; the 1958-62 period displayed a relatively constant rate.

Source: Compilation of Census Bureau data as published in "Employment and Earnings," and Monthly Report of the Labor Force, Bureau of Labor Statistics, Department of Labor.

TABLE 16.—EMPLOYMENT OF HEADS OF FAMILIES, 1966, BY SEX AND POVERTY STATUS OF HEAD

	[In percent]			
	All male heads of families	All female heads of families	Female heads of poor families	Male heads of poor families
Worked all year	74	35	19.0	38.0
Worked part year	15	23	29.0	27.0
Unemployed			54.8	23.1

Source: "Counting the Poor: Before and After Federal Income-Support Programs," (1966); Joint Economic Committee print, "Old-Age Income Assurance, pt. II: The Aged Population and Retirement Income Programs," December 1967, P. 211; pp. 192-193.

advantaged if they had children under 6 to look after.<sup>20</sup> The unemployment rate for women was much higher than that for men in 1966.

d. *Central city versus suburban residents.*—A study by the Bureau of Labor Statistics using

<sup>20</sup> Mollie Orshansky, "Counting the Poor: Before and After Federal Income-Support Programs," reprinted from Joint Economic Committee Print, *Old Age Income Assurance*, Part II, December 1967, U.S. Congress, p. 206.

census data collected in 1967 in the 20 largest metropolitan areas in the United States reveals a much higher unemployment rate in central cities than in suburban areas. This might be expected, in view of the high concentration of nonwhites (with a 2 to 1 national unemployment ratio) in central cities. Although nonwhites formed about 25 percent of the potential labor force, they accounted for 40 percent of the unemployed in central cities.<sup>21</sup> More than half (54 percent) of the labor force of the 20 largest SMSA's work in suburban areas, and 95 percent of this suburban labor force is white<sup>22</sup>—even though the suburban rings of these metropolitan areas contain relatively large cities and many towns that are not bedroom suburbs.<sup>23</sup>

There was a considerable difference in the white unemployment rate between the city and the suburb, but for nonwhites the difference was relatively insignificant.<sup>24</sup> It was difficult for nonwhites to obtain a job in either area.

TABLE 17.—UNEMPLOYMENT, BY COLOR, IN 20 LARGEST SMSA'S, 1967

	National percentage	Central city percentage	Suburban percentage
Total	3.8	4.7	3.3
White	3.4	3.7	3.1
Nonwhite	7.4	7.6	7.0

Source: Paul O. Flaim, "Jobless Trends in 20 Largest Metropolitan Areas," Monthly Labor Review, May 1968, vol. 91, No. 5, table 2, p. 18, and table 3, p. 21.

e. *Central city commuters.*—One of the reasons for the concentration of Negroes in the central city was the availability of jobs. Now, however, increasing numbers of jobs are being located in the suburbs, where they are less accessible to central city residents. A 1967 report issued by the Department of Labor shows that between 1954 and 1965 more than half of all new industrial and mercantile buildings constructed in metropolitan areas in the United States were being built outside central cities—and this movement appeared to be accelerating. The study showed that from 1960 to 1965 at least 62 percent (by value) of the permits for new industrial buildings were issued for construction in the suburbs; the figure was 52 percent for mercantile buildings.<sup>25</sup>

<sup>21</sup> Paul O. Flaim, "Jobless Trends in Twenty Largest Metropolitan Areas," Monthly Labor Review, U.S. Department of Labor, Bureau of Labor Statistics, May 1968, Vol. 91, No. 5, p. 27.

<sup>22</sup> *Ibid.*, pp. 19-20.  
<sup>23</sup> For example, Yonkers (191,000 population in 1960) in the New York ring, and Camden, New Jersey (1960 population, 117,000) in the Philadelphia ring. (See Paul O. Flaim, *op. cit.*, p. 20.)

<sup>24</sup> The standard error for the suburban nonwhite unemployment rate is relatively large. The range for this rate (5.9-8.1) and the range for the nonwhite central city rate (7.1-8.1 percent) overlap considerably. It is therefore possible that there is no difference at all between the two rates. (See Paul O. Flaim, *op. cit.*)

<sup>25</sup> Dorothy K. Newman, "The Decentralization of Jobs," Monthly Labor Review, May 1967.



Census data for five large metropolitan areas show that central cities either lost jobs or gained them in very small proportion to the gains made by suburbs.

TABLE 18.—EMPLOYMENT PATTERN (1951-65)

	Number of new jobs		
	City	Suburbs	Metropolitan area
Baltimore.....	1,450	86,086	87,536
New York.....	127,753	387,873	515,626
Philadelphia.....	-49,461	215,296	165,835
St. Louis.....	-61,800	141,911	80,111
San Francisco.....	9,346	185,742	195,089

Source: "County Business Patterns," U.S. Census Bureau, as quoted in "The Impact of Housing Patterns on Job Opportunities," National Committee Against Discrimination in Housing, New York, 1968.

Who is filling the new jobs in the suburbs? Journey-to-work data collected on five major metropolitan areas by the Census Bureau suggest that it is not the central city Negroes.

TABLE 19.—NONWHITE COMMUTING FROM CENTRAL CITY TO SUBURBAN JOBS (1960)

	Nonwhite male commuters	Percent of work force		Total suburban employment, <sup>1</sup> 1959
		Central city nonwhite males	Total suburban employment, 1959	
Baltimore.....	9,546	16.0	6.9	138,069
New York.....	7,007	3.1	1.3	524,799
Philadelphia.....	8,570	8.6	1.8	480,821
St. Louis.....	3,156	9.0	1.4	233,505
San Francisco.....	7,272	15.3	2.0	370,790

<sup>1</sup> Employment data by county not available for 1960.

Source: U.S. Census of Population, 1960, "Journey to Work: County Business Patterns," 1959, as quoted in "The Impact of Housing Patterns on Job Opportunities," National Committee Against Discrimination in Housing, New York, 1968.

Commuting from the central cities of these five metropolitan areas to suburban jobs is both time consuming and costly. A study on commuting in these five metropolitan areas reveals that a central city ghetto dweller in Philadelphia would have to spend \$6.60 a week for commuter tickets and change buses three times, at the least, in order to get to a job in neighboring Montgomery County. If he lived near the railroad station and if his job were close to the station in Montgomery County he could cut the cost to \$4.80 a week.

In Baltimore, the cost for traveling by public transportation from the central city to a suburban job ranges from approximately \$4 a week for a 40-minute ride (each way) to \$15 a week and an hour's ride each way to Annapolis.

In St. Louis, it would take from 3 to 4 hours per day, at a cost of about \$6.50 a week, for a worker to get from the ghetto area to the McDonnell Aircraft Corp. and back. To many

of the St. Louis suburban job centers there is no public transportation at all.

In New York, it costs \$30 a month to commute on the Long Island Railroad.

Commuting between Hunter's Point in San Francisco and a Contra Costa County job in the East Bay area would require three to four transfers, 4 to 5 hours of traveling time per day, and some \$15 a week. To commute from Alameda or West Oakland to the Contra Costa County jobs would take at least 4 hours a day and cost about \$11.50 a week.<sup>26</sup>

The McCone report on the Watts riots cited inadequate and costly public transportation as a major influence in creating a sense of isolation and frustration in the south central Los Angeles area.

Existing in-and-out commuter public transit systems are generally not suited to "reverse commuting." Central city residents, white or Negro (except domestics), can seldom use the "empty backhaul" of a commuter bus or train to get to a suburban job. Private automobiles are the most common means used to get to work in this county, but many employable central city dwellers cannot afford cars or even car pools to take them to suburban jobs.

The high unemployment rate of central-city nonwhites is, however, not wholly attributable to central-city-to-suburb commuting problems. White-collar jobs, which are generally increasing at a faster rate than blue-collar jobs, are in the main locating in central cities.<sup>27</sup> But it is this source of employment—which would not involve the commuting difficulties just described—that the nonwhite finds largely inaccessible to him because of a lack of skills or outright discrimination.

If these obstacles were overcome, white-collar employment could form a major source of employment for central city Negroes. Hearings held in January 1968 by the Equal Employment Opportunity Commission in New York City indicate, however, that white-collar employment discrimination is a serious problem for central city Negroes.

<sup>26</sup> Commuting time and cost data obtained from, The Impact of Housing Patterns on Job Opportunities, National Committee Against Discrimination in Housing, New York, 1968, pp. 27-29.

<sup>27</sup> In 1950, the total number of blue-collar workers in the United States exceeded the number of white-collar workers by about one million. By 1966, white-collar workers exceeded blue-collar workers by more than 5.5 million. By 1975, there will be almost 12 million more white collar jobs than there were in 1964. The increase in blue-collar jobs will be only 4.4 million. Bureau of Labor Statistics, America's Industrial and Occupational Manpower Requirements, 1964-75, prepared for the National Commission on Technology, Automation and Economic Progress.

Between 1954 and 1965 the increase in white-collar jobs took place largely within central cities.



*f. Residents of poverty areas.*—At the Commission hearings in Los Angeles, author and social scientist Nathan Glazer said:

\* \* \* our slum problems are not primarily physical problems; they are complex social problems related to the fact that the slumdwelling population in our cities is increasingly Negro. Thus, when foreign visitors see our slums, they are reacting only partly to their physical conditions—they are reacting to the sight of men lounging about without employment, children playing without supervision, youth without any apparent useful employment. They are reacting to a social as well as a physical scene.<sup>28</sup>

In 1967 the unemployment rate in poverty areas was 9.4 percent for nonwhites and 6 percent for whites.<sup>29</sup> National rates were 7.3 percent for nonwhites and 3.4 percent for whites. A wide disparity can be seen between unemployment rates in ghetto areas and in the total metropolitan areas in which they are located.

TABLE 20.—UNEMPLOYMENT RATES, GHETTO AREAS AND SURROUNDING METROPOLITAN AREAS, 1966

SMSA	Ghetto area	Unemployment rate (percent)	
		Ghetto <sup>1</sup>	SMSA <sup>2</sup>
Boston.....	Roxbury.....	6.9	3.7
Cleveland.....	Hough and surrounding neighborhood.....	15.6	3.5
Detroit.....	Central Woodward.....	10.1	4.3
Los Angeles.....	South Los Angeles.....	12.0	6.0
New York.....	Harlem.....	8.1	4.6
	East Harlem.....	9.0	
	Bedford-Stuyvesant.....	6.2	
Philadelphia.....	North Philadelphia.....	11.0	4.3
Phoenix.....	Salt River Bed.....	13.2	4.5
St. Louis.....	North Side.....	12.9	
San Antonio.....	East and West Sides.....	8.1	5.2
San Francisco-Oakland.....	Mission-Fillmore.....	11.1	
	Bayside.....	13.0	

<sup>1</sup> As of November 1966.

<sup>2</sup> Average for year ending August 1966.

Source: 1967 Manpower Report of the President, p. 75; metropolitan area data based on special tabulation of data from the Current Population Survey, published in "The Impact of Housing Patterns on Job Opportunities," National Committee Against Discrimination in Housing, New York 1968.

*g. The Underemployed.*—The unemployment rate takes into account only those who are not working but who are actively seeking employment. It does not count the poor who have other job-related problems, nor those who are not participants in the labor force. And these underemployed form a substantial part of the poverty population.

(i) The working poor: Work may be the key to economic well-being, but it does not guarantee it. For many of the poor, what is needed is not so much *more* jobs but *better* ones—with higher pay, more secure tenure, and more opportunity for advancement.

*In 1966, one out of every four poor families was headed by a man who had worked through-*

*out the entire year.*—Of the 3 million men under 65 who headed poor families, half were "fully employed" in terms of time on the job. Their low-paying jobs resulted in poverty-level living for the 8 million members of their families—one-third of all the poor who were not living alone.

Since the poverty measuring rod takes family size into account, one might assume that numerous children rather than low income was the main cause of the poverty status of these "fully employed" men. But in 1965, three-fifths of such poor but fully employed men had no more than three children to support.<sup>30</sup>

Incidence of poverty is closely related to type of job held. High poverty rates are associated with farming and unskilled labor for men and domestic service for women.

(ii) Subemployment: A special survey undertaken by the Labor Department in 14 of the worst ghetto areas of the country in November 1966, revealed that while unemployment rates were very high, this standard measure of joblessness did not take into account other very severe problems related to being out of work. As a result, a new method of measuring joblessness was developed: the subemployment index.<sup>31</sup> Table 21 shows the inordinately high subemployment rates for 11 ghetto areas, and compares them with the standard unemployment rates. The average subemployment rate for all the cities was 34.6 percent, which would mean that 1 in every 3 residents of these ghetto areas in the labor force was unemployed, employed part time, or employed at poverty-level wages.<sup>32</sup>

Unemployment is a major cause of poverty, but subemployment may be a greater one. In 1966, in metropolitan areas alone, there were 2,393 million adults and 2,384 million children under 18 living in poor households headed by *employed* males aged 18 to 65. They constituted almost one-third of all poor persons in metropolitan areas, while only 1 out of every 7 poor persons in metropolitan areas lived in households having a male head under age 65 who was unemployed. Low wages, then, rather than joblessness was the cause of the greater amount of poverty in metropolitan areas.

<sup>30</sup> "The Shape of Poverty, 1966," op. cit., p. 15.

<sup>31</sup> The subemployment index covers an entire employment hardship area and takes into account not only the traditionally "unemployed" (those actively seeking work but unable to find it) and the working poor (heads of households earning less than \$60 a week and individuals over 65 earning less than \$56 a week); but also those working part time but seeking full-time jobs; half the number of nonparticipants in the male age group 20-64 who are not in the labor force, and a "conservative and carefully considered estimate of the male 'undercount' group."

A special survey taken in 1966, described in footnote 36 below, revealed that a very large number of ghetto residents of working age were not counted in the labor force of the metropolitan areas surveyed.

<sup>32</sup> *The Impact of Housing Patterns on Job Opportunities*, op. cit., pp. 18-20.

<sup>28</sup> Nathan Glazer, *Hearings Before the National Commission on Urban Problems*, Vol. 2, p. 240.

<sup>29</sup> *The Impact of Housing Patterns on Job Opportunities*, op. cit., p. 15.

TABLE 21.—SUBEMPLOYMENT RATE AND UNEMPLOYMENT RATE IN 11 GHETTO AREAS, 1966

[In percent]		
	Unemployment	Subemployment
Boston.....	6.9	24
Cleveland.....	15.6	49
New Orleans.....	10.0	45
New York:		
Harlem.....	8.1	29
East Harlem.....	9.0	33
Bedford-Stuyvesant.....	6.2	28
Philadelphia.....	11.0	34
Phoenix.....	13.2	42
St. Louis.....	12.9	39
San Antonio.....	8.1	47
San Francisco.....	11.1	25

Source: U.S. Department of Labor, as published in "The Impact of Housing Patterns on Job Opportunities," National Committee Against Discrimination in Housing, New York, 1968, p. 18.

### Where are the poor?

Trends in the distribution of the Nation's poverty population—in terms of regions, urban and rural concentrations, and metropolitan area locations—are an important aspect of the urban problems encompassed by the Commission's work.

### Regional distribution

About half of the Nation's poor lived in the South in 1966. The South, still the least urban region of the United States, was also the location of two-thirds of the nonwhite poor and two-fifths of the white poor.

TABLE 22.—THE DISTRIBUTION OF POOR U.S. FAMILIES, BY REGION AND COLOR, 1966

[In percent]			
Region	All families	White families	Nonwhite families
Northeast.....	17.0	19.0	12.0
North Central.....	20.7	23.0	14.7
South.....	48.5	42.1	64.7
West.....	13.8	15.9	8.5
Total.....	100.0	100.0	100.0

Note: Not all percentages will total 100 percent because of rounding.

Source: "The Shape of Poverty, 1966," by Mollie Orshansky, reprinted from the Social Security Bulletin, March 1968, table 6.

Similar statistics collected 2 years earlier indicated that the nonwhite poor were concentrated even more heavily in the South than they were in 1966, but are now beginning to spread out through the country.<sup>33</sup> The short-term trend, however, would indicate that the proportion of those in poverty, white and nonwhite, was lessening everywhere except in the Northeast, where the percentage of nonwhite poor was apparently increasing.<sup>34</sup>

<sup>33</sup> Mollie Orshansky, "More About the Poor in 1964," reprinted from the *Social Security Bulletin*, U.S. Department of Health, Education and Welfare, Social Security Administration, May 1966, table 22.

<sup>34</sup> *Ibid.*

TABLE 23.—PERCENT OF THE REGIONAL POPULATION IN POVERTY, BY COLOR, 1966

Region	All families	White families	Nonwhite families
Northeast.....	8.6	7.4	24.9
North Central.....	9.2	8.0	24.5
South.....	19.7	14.6	46.9
West.....	10.1	9.1	21.1

Source: "The Shape of Poverty in 1966," op. cit.

### The countryside and the metropolis

The part of the United States that is not metropolitan includes farm, nonfarm, and even some urban places not included in the 1967 count of 228 U.S. SMSA's. Since 1920 this vast area has held less than half of the U.S. population, and it now holds only about a third. But it contains about half of the poor—although comparison with the 1964 figures would indicate that this proportion is decreasing.<sup>35</sup> Metropolitan areas as a whole have 65 percent of the population but only 51 percent of the poor; in nonmetropolitan areas the figures are 35 percent of the population and 49 percent of the poor.

### The city and the suburb

Within metropolitan areas the poor tend to concentrate in the central cities. The high percentage of metropolitan poor in central cities is due to the fact that the great majority of nonwhite poor live in these central cities. Almost half of the white poor live in the suburbs.

TABLE 24.—LOCATION OF THE METROPOLITAN POOR BY COLOR, 1966

[Numbers in millions]						
	Total		White poor		Nonwhite poor	
	Number	Percent	Number	Percent	Number	Percent
Central city.....	9.5	63	5.3	53	4.2	82
Suburban ring.....	5.7	37	4.8	47	.9	18
Total.....	15.2	100	10.1	100	5.1	100

Source: Orshansky, Counting the Poor.

The suburbs do not carry their share of the total poor. With 35 percent of the U.S. population, they have only 20 percent of the poor. The number of poor in the central city is roughly in proportion to its share of the total population; the small towns and rural places, as mentioned above, carry a disproportionate burden that makes up for the light load of the suburbs.

The incidence of poverty in the suburbs is about half that in the central city. Even a nonwhite, living in the suburbs, is a little less likely to be poor than a nonwhite in the central city.

<sup>35</sup> Mollie Orshansky, "The Poor in City and Suburb, 1964," reprinted from the *Social Security Bulletin*, U.S. Department of Health, Education and Welfare, Social Security Administration, December 1966, p. 5, table 4.



TABLE 25.—DISTRIBUTION OF TOTAL POPULATION, CONTRASTED WITH DISTRIBUTION OF TOTAL POOR, POPULATION, BY TYPE OF PLACE, 1966

	All persons		White persons		Nonwhite persons	
	Percent of total U.S. population	Percent of U.S. poor	Percent of total U.S. population	Percent of U.S. poor	Percent of total U.S. population	Percent of U.S. poor
Metropolitan.....	64.7	51.0	64.3	50.0	67.9	53.2
Central city.....	30.2	31.5	27.0	26.5	53.4	43.6
Ring.....	34.6	19.5	37.3	23.5	14.5	9.6
Nonmetropolitan.....	35.3	49.0	35.7	50.0	32.1	46.8
	100.0	100.0	100.0	100.0	100.0	100.0

Source: "Counting the Poor: Before and After Federal Income-Support Programs," (Population estimates derived from special tabulations made by the Bureau of the Census from the Current Population Survey for March, 1967).

TABLE 26.—PERCENTAGE OF POPULATION THAT IS POOR BY TYPE OF PLACE 1966

	All poor	White poor	Nonwhite poor
Metropolitan.....	12.1	9.3	32.0
Central city.....	16.2	11.7	33.0
Ring.....	8.6	7.6	28.2
Nonmetropolitan.....	21.4	16.8	59.3

Source: "Counting the Poor: Before and After Federal Income-Support Programs," op. cit.

However, he is still almost four times more likely to be poor than is a suburban white.

#### *Poverty pockets in and around cities*

A special survey was made in the spring of 1966 of households (families plus individuals living alone) within "poverty areas" designated according to the 1960 census data, in both the central cities and the suburbs of the 101 largest metropolitan areas.<sup>36</sup> It is apparent that nonwhite families are concentrated in poverty areas much more than are white families, whatever the income level. Only 11 percent of white families (data do not include individuals living alone) lived in these poverty areas in 1965; by contrast 58 percent of all nonwhite SMSA families lived there.

Moreover, the concentration of nonwhite families in poverty areas is increasing. (These data include the suburban poverty pockets, with their

low proportion of nonwhite residents. The concentration of nonwhites of all incomes in central city poverty areas is always substantially greater than the average of the two areas indicates.)

In 1960, 37 percent of the families in poverty areas were black; 5 years later the proportion had risen to 41 percent.<sup>37</sup> A corollary of the concentration of nonwhites in poverty areas is that nonwhite families of all economic levels are thrown together in the poverty areas. Such areas thus begin to assume the character of the classic ghetto. Historically, a ghetto was the section of a city within which a particular ethnic group was confined, and outside which its members were not permitted to live, regardless of income or social status. Using the term "ghetto" to mean a poverty area is inaccurate. The concentration of Negroes, of course, is not as absolute a confinement as it was in the ghetto of the Middle Ages. Many Negroes of high income and cultural levels, however, have found it difficult to follow the American pattern of gradual integration into the larger community. Fifty-two percent of nonpoor nonwhite families lived in poverty areas in 1965, contrasted with only 10 percent of the nonpoor whites.<sup>38</sup>

As one would expect, the percentage of households (families and individuals living alone) below the poverty line is much greater within these poverty areas than it is outside, although poor families are still a minority even within poverty areas. Nearly one-fifth of the households in central cities are poor, but nearly one-third of those in central city poverty areas are below the poverty line. Even in the suburbs, almost a quarter of the households in poverty pockets are poor, compared to only about an eighth of the residents of suburbia as a whole.

The incidence of poverty among individuals living alone in cities, and especially in poverty areas is greater than that among families, ranging from one-third to nearly half everywhere.

<sup>36</sup> A special study of the 1960 Census data was made by the Census Bureau for the Office of Economic Opportunity on family and per capita income rankings. In addition, another special study began in 1965 of "poverty areas" in the 101 SMSA's with a 1960 population of 250,000 or more using census tracts, the smallest area for which the necessary socioeconomic information was available (many of the smaller SMSA's were either partially tracted or not tracted at all). One of these large SMSA's, Davenport-Rock Island-Moline, Iowa, Ill., was found to have no poverty areas at all.

All census tracts were ranked according to five equally-weighted poverty-linked characteristics: (1) Percent of families with incomes under \$3,000 in 1959; (2) Percent of children under age 18 not living with both parents; (3) Percent of persons age 25 or older with less than 8 years of education; (4) Percent of unskilled males employed; and (5) Percent of housing units dilapidated or lacking some or all plumbing. Those in the lowest quartile were designated "poor" tracts and "poverty areas" depended on the number and duration of existence of contiguous poverty tracts. There were 193 poverty areas designated in 100 SMSA's.

Next, a national sample survey was made in the Spring of 1966 by the Census Bureau for OEO, covering about 80,000 households. The study included the annual March Current Population Survey, the Monthly Labor Survey, and a special sample run specifically for this study. All 80,000 households (families and unrelated individuals) were classified as being in or out of a Poverty Area.

<sup>37</sup> Supplementary Reports, PC(S1)—54, U.S. Department of Commerce, Bureau of the Census, November 13, 1967, Table A; and Arno I. Winard, "Characteristics of Families Residing in Poverty Areas Within Large Metropolitan Areas," Bureau of the Census, June 15, 1967, Table 1.

<sup>38</sup> *Ibid.*



The pattern is repeated (except for single nonwhites) in the suburban ring. Very probably, this is the statistical reflection of the plight of elderly individuals, white and nonwhite, described earlier.

TABLE 27.—PROPORTION OF FAMILIES AND INDIVIDUALS IN 100 LARGEST SMSA'S AND THEIR POVERTY AREAS WHO WERE POOR IN 1965

	[In percent]			
	Central cities		Outside central cities	
	Total	Poverty areas	Total	Poverty areas
Total households.....	19.7	33.4	11.7	23.1
Families.....	13.4	27.2	7.5	18.0
White.....	9.4	18.6	6.7	15.1
Nonwhite.....	28.9	35.8	24.8	29.5
Individuals alone.....	36.0	44.9	34.3	46.8
White.....	34.5	43.5	33.3	43.5
Nonwhite.....	42.0	47.1	46.3	( <sup>c</sup> )

<sup>c</sup> Base less than 65,000 people.

Source: "Incidence of Poverty in 1965 Among Families and Unrelated Individuals by Color, for the United States, by Detailed Residence Categories," Survey of Economic Opportunity, Bureau of the Census.

Other population subgroups overrepresented in these poverty areas in 1965 were: families headed by women, families with a head 14 to 24 years old, large families (seven or more), families dependent on income other than earnings (presumably on social security or public assistance), and families whose head was unemployed, semiskilled or unskilled.

TABLE 28.—POPULATION SUBGROUPS AS PART OF TOTAL AND AS PART OF POVERTY AREAS OF 100 LARGEST SMSA'S, 1965

	Percent of total	Percent of poverty areas
Female-headed families.....	11.4	20.4
Families with head aged 14-24.....	6.0	8.1
Large families.....	6.5	9.9
Families with source of income not earnings.....	8.3	13.4
Head unemployed, semiskilled, or unskilled.....	43.9	67.6

Source: "Characteristics of Families Residing in Poverty Areas Within Large Metropolitan Areas," table 1.

The character of poverty areas changed in the 5-year period 1960-65 in ways that somewhat parallel developments in the central city as a whole. Considerable numbers of white families left. Among the nonwhite residents, the total number of families increased slightly, but the total number of those families who were poor dropped by about the same percentage. The situation in 1965, therefore, reflected an area of more concentrated black residence that included more of the Negro middle class.<sup>39</sup>

#### CONCLUSIONS

Most Americans are economically better off today than they were 10 or even 5 years ago. An era of unprecedented national prosperity has been shared in by most segments of the population. Fewer Americans—white, black, In-

dian, Puerto Rican, Mexican-American, oriental—are poor, according to much statistical evidence. This evidence has led some to conclude that the urgent urban problems which fall within the scope of this Commission's assignment are on the way to resolving themselves. A closer examination reveals, however, that certain of these problems persist and, indeed, are becoming more acute in the absence of concerted remedial action.

*More people.*—The sheer concentration of population in city and suburb is, in itself, an urban problem, for more people—regardless of their social or economic condition—means a demand for more schools, more water and sewers, more transportation, more police protection, more of all the services that are part of urban living. Municipal administrations are finding it difficult to run fast enough to stand still; but the next 15 years will add another 40 to 50 million persons to the population, and 81 percent of this growth is expected to occur within metropolitan areas.

*The suburban advantage.*—The suburban ring has a majority of the residents of the metropolitan area. It also has less than its proportionate share of the poor, and only 5 percent of American nonwhites. Part of the reason that this considerable section manages to retain its present character is that little low-cost housing is being built there; indeed, little low-cost housing is built anywhere, but the central city, so far, has the only substantial stock of housing depreciated far enough to provide a supply of housing, however unsatisfactory, for low-income whites and nonwhites. The suburbs, however, contain nearly half the white metropolitan poor—a figure which suggests that the suburbs discriminate more on the basis of race than on the basis of economic status.

*Increased nonwhite population in central city.*—The central city has 32 percent of the Nation's poor, and more than half of the Nation's nonwhites. Figures on the change in location of the poor are too recent to be reliable, but it seems clear that the concentration of nonwhites of all income levels is increasing in the central city. The prospect is that the political base of many of our larger cities, in the South, Northeast, and West, will be that of a black majority by 1985. Since the incidence of poverty is much higher among nonwhites than whites, the fiscal implication for the central city is not hopeful.

*Poverty area stagnation.*—The urban slum has, in American experience, been a way station to a better life for its inhabitants. Now, however, instead of sending forth the residents that characterize it today—the urban nonwhites—the city poverty area appears to be concentrating them still further. The nonwhite compo-

<sup>39</sup> *Ibid.*

nent of central city poverty areas has increased decidedly; their high proportion of poor households appears to be nearly stationary. Apparently there is a hard core of nonwhite families whose situation improves slowly, if at all. According to an expert witness before the hearings of this Commission, the problem in urban slums is less a matter of housing than the entire social and economic history of American nonwhites:

Whatever may have been the case in other countries and in other times, our slum problem is not primarily a problem of specific facilities: it is a problem related to the existence in this Nation, and increasingly in our cities, of a large, depressed population, which has suffered from discrimination, segregation, poor education.

Our slums have always varied, depending on who lived in them. We have lived with German slums, Irish slums, Jewish slums, Italian slums. We are now living in an age of Negro slums. Each group has been a participant in creating an environment which to some extent reflected its experience. Now we have a group that has suffered from the worst experience, with the worst effects—and the environment it has helped to create reflects that experience.<sup>40</sup>

*The problems of particular groups.*—Certain groups in our society have special difficulties—the elderly, women who head families, children in large families, and, of course, the unemployed and underemployed. Although the white poor outnumber the nonwhite poor two to one, the nonwhite poor form a larger than proportionate share of these hard-core categories. Seen in this light, the age group projections made in the Commission's population study<sup>41</sup> are rather ominous:

The dependent age groups—those under 15, and those over age 65—will increase rapidly if present trends continue, especially among the nonwhites. There will be one and a half times the present number of elderly, white and nonwhite, in the suburbs by 1985, and the nonwhite elderly in the central cities will double in number. This age group formed nearly one out of five of the poor in 1966. The group that will grow least will be that aged 45 to 64.

The group that will grow most rapidly—fortunately perhaps, since they must shoulder most of the burden of support for the dependent groups—will be the relatively young working force, aged 15 to 44. The very growth of this age group, however, engenders potential problems. These are the childbearing years, the most vigorous years, and the years in which jobs must be found and held. The increase in this group will be greatest in the suburbs, *but may be felt most severely in cities.* Nonwhites in this age group will more than double, and yet this group suffers more from unemployment, cannot move to

the suburbs, and finds even commuting to suburban jobs difficult.

Americans are better off today than a decade ago. The general prosperity has reduced unemployment; most importantly, however, the American public has taken great collective steps in the last 10 years, through governmental and private action, to improve the lot of the poor in jobs, health, education, and housing. These actions have had a marked effect. But there are still almost 26 million Americans in poverty. We cannot be content to ignore their distress in the midst of the well-being of the rest of America.

The changing character of the central city relates to more people and growth of particular categories of its residents. The subsequent parts of this report detail the problems of housing, governmental structure, financing of urban services, and guiding of urban development. The more rapid growth of the suburban areas underlines the likelihood that the problems faced by the central city today will be shared by suburbia tomorrow. They are, indeed, problems that confront every American.

TABLE 29.—NET POPULATION GROWTH RATES, 1935 TO 1967

1935 <sup>1</sup> .....	.80	1952.....	1.69
1936 <sup>1</sup> .....	.71	1953.....	1.70
1937 <sup>1</sup> .....	.79	1954.....	1.78
1938 <sup>1</sup> .....	.91	1955.....	1.76
1939 <sup>1</sup> .....	.89	1956.....	1.81
1940.....	.92	1957.....	1.72
1941.....	1.03	1958.....	1.67
1942.....	1.27	1959.....	1.65
1943.....	1.31	1960.....	1.63
1944.....	1.15	1961.....	1.64
1945.....	1.04	1962.....	1.51
1946.....	1.53	1963.....	1.43
1947.....	1.83	1964.....	1.36
1948.....	1.72	1965.....	1.22
1949.....	1.71	1966.....	1.14
1950.....	1.63	1967.....	1.07
1951.....	1.74		

<sup>1</sup> For the 48 States excluding armed forces overseas.

Source: Current Population Reports—Population Estimates. Estimates of the population of the United States and components of change: 1940 to 1968, Series p, 25, No. 398, July 31, 1968, U.S. Bureau of the Census.

TABLE 30.—GROWTH IN TOTAL U.S. POPULATION, IN URBAN AND RURAL POPULATION, 1790-1960

Year:	Total (in thou- sands)	Decade rate	Urban (in thou- sands)	Rate	Rural (in thou- sands)	Rate
1790.....	3,929		202		3,728	
1800.....	5,308	35.1	322	59.4	4,986	31.0
1810.....	7,240	36.4	525	94.0	6,714	34.6
1820.....	9,638	33.1	693	32.0	8,945	33.2
1830.....	12,866	33.5	1,127	62.6	11,739	31.2
1840.....	17,069	32.7	1,845	63.7	15,224	29.6
1850.....	23,192	35.9	3,544	92.1	19,648	29.0
1860.....	31,443	35.6	6,217	75.3	25,227	28.3
1870.....	39,818	26.6	9,902	59.2	28,656	13.5
1880.....	50,156	26.0	14,130	42.6	36,026	25.7
1890.....	62,948	25.5	22,106	56.4	40,841	10.5
1900.....	75,995	20.7	30,160	36.4	45,835	12.2
1910.....	91,972	21.0	41,999	39.2	49,973	9.0
1920.....	105,711	14.9	54,158	28.9	51,553	3.1
1930.....	122,775	16.1	68,955	27.3	53,820	4.3
1940.....	131,669	7.2	74,424	7.9	57,246	6.3
1950 <sup>1</sup> .....	150,698	14.5	96,468	29.6	54,230	-5.2
1960 <sup>1</sup> .....	179,323	18.5	125,269	22.9	54,054	-3

<sup>1</sup> New definition including unincorporated parts of urban areas.

Source: Statistical Abstract of the United States 1968, Table 1; Historical Statistics of the United States, Colonial Times to 1957, U.S. Bureau of the Census, Series A-195209; Statistical Abstract of the U.S., 1968, Table 14 (for 1960 figures)

<sup>40</sup> Nathan Glazer, *op. cit.*, p. 240.

<sup>41</sup> Hodge-Hauser, *op. cit.*

TABLE 31.—PROJECTED GROWTH IN AND OUTSIDE METROPOLITAN AREAS,<sup>1</sup> FOR THE UNITED STATES, BY REGION, 1960-85

[Numbers in thousands, not adjusted to add to independently rounded subtotals; minus sign (—) denotes decrease]

Region and metropolitan or nonmetropolitan residence	1985	1960	Increase 1960 to 1985		Percent by residence within SMSA's		Change
			Number	Percent	1985	1960	
United States.....	252,185	179,323	72,862	40.6	.....	.....	.....
In SMSA's.....	178,138	112,884	65,254	57.8	100.0	100.0	.....
Central cities.....	65,581	58,208	7,373	12.7	36.8	51.6	-14.8
Outside central cities.....	112,557	54,676	57,881	105.9	63.2	48.4	+14.6
Outside SMSA's.....	74,047	66,439	7,608	11.5	.....	.....	.....
Northeast.....	58,517	44,678	13,839	31.0	.....	.....	.....
In SMSA's.....	47,328	35,350	11,978	33.9	100.0	100.0	.....
Central cities.....	18,318	17,324	994	5.7	38.7	49.0	-10.3
Outside central cities.....	29,010	18,026	10,984	60.9	61.3	51.0	+10.3
Outside SMSA's.....	11,189	9,328	1,861	20.0	.....	.....	.....
North Central.....	65,723	51,619	14,104	27.3	.....	.....	.....
In SMSA's.....	44,642	30,963	13,679	44.2	100.0	100.0	.....
Central cities.....	16,643	16,642	1	0	37.3	53.7	-16.4
Outside central cities.....	27,999	14,321	13,678	95.5	62.7	46.3	+16.4
Outside SMSA's.....	21,081	20,656	425	2.1	.....	.....	.....
South.....	78,910	54,973	23,937	43.5	.....	.....	.....
In SMSA's.....	46,156	26,436	19,720	74.6	100.0	100.0	.....
Central cities.....	18,374	15,063	3,311	22.0	39.8	57.0	-17.2
Outside central cities.....	27,783	11,373	16,410	144.3	60.2	43.0	+17.2
Outside SMSA's.....	32,754	28,537	4,217	14.8	.....	.....	.....
West.....	49,035	28,053	20,982	74.8	.....	.....	.....
In SMSA's.....	40,012	20,135	19,877	98.7	100.0	100.0	.....
Central cities.....	12,247	9,180	3,067	33.4	30.6	45.6	-15.0
Outside central cities.....	27,765	10,955	16,810	153.4	69.4	54.4	+15.0
Outside SMSA's.....	9,023	7,918	1,105	14.0	.....	.....	.....

<sup>1</sup> 1960 boundaries of SMSA's used for 1960; 1967 boundaries used for 1985.

Source: Hodge-Hauser, op. cit., p. 16.

TABLE 32.—COLOR COMPOSITION OF METROPOLITAN AREAS,<sup>1</sup> CENTRAL CITIES, AND SMSA RINGS BY REGION, 1960 AND PROJECTED 1985

Residence and color	United States			Northeast			North Central			South			West		
	1985	1960	Change	1985	1960	Change	1985	1960	Change	1985	1960	Change	1985	1960	Change
SMSA.....	100.0	100.0	.....	100.0	100.0	.....	100.0	100.0	.....	100.0	100.0	.....	100.0	100.0	.....
White.....	84.9	88.3	-3.4	87.5	91.6	-4.1	86.7	89.5	-2.8	76.6	80.1	-3.5	89.2	91.4	-2.2
Nonwhite.....	15.1	11.7	+3.4	12.5	8.4	+4.1	13.3	10.5	+2.8	23.4	19.9	+3.5	10.8	8.6	+2.2
Central city.....	100.0	100.0	.....	100.0	100.0	.....	100.0	100.0	.....	100.0	100.0	.....	100.0	100.0	.....
White.....	69.3	82.2	-12.9	73.6	86.2	-12.6	68.0	82.9	-14.9	61.2	74.0	-12.8	76.7	87.0	-10.3
Nonwhite.....	30.7	17.8	+12.9	26.4	13.8	+12.6	32.0	17.1	+14.9	38.8	26.0	+12.8	23.3	13.0	+10.3
SMSA ring.....	100.0	100.0	.....	100.0	100.0	.....	100.0	100.0	.....	100.0	100.0	.....	100.0	100.0	.....
White.....	93.9	94.8	-.9	96.3	96.9	-.6	97.8	97.2	+.6	86.8	88.3	-1.5	94.7	95.1	-.4
Nonwhite.....	6.1	5.2	+.9	3.7	3.1	+.6	2.2	2.8	-.6	13.2	11.7	+1.5	5.3	4.9	+.4

<sup>1</sup> 1960 boundaries of SMSA's used for 1960; 1967 boundaries used for 1985.

Source: Hodge-Hauser, op. cit., p. 31.



TABLE 33.—PROJECTED PERCENT CHANGE IN POPULATION BY BROAD AGE GROUPS OF REGIONS, BY COLOR, FROM 1960 TO 1985, FOR COMPONENT PART OF METROPOLITAN<sup>1</sup> AREAS

Age class and region	Total SMSA			Central city			SMSA ring		
	Total	White	Nonwhite	Total	White	Nonwhite	Total	White	Nonwhite
<b>All metropolitan areas:</b>									
All ages.....	57.8	51.6	104.5	12.7	-5.1	94.5	105.9	104.0	140.7
Under 15 years.....	49.1	40.9	100.7	13.9	-8.5	91.8	81.1	77.9	131.4
15 to 64 years.....	59.7	53.9	105.5	12.0	-4.9	94.9	112.4	110.7	145.5
15 to 44 years.....	74.0	67.2	123.9	24.9	4.9	112.4	125.2	122.9	167.0
45 to 64 years.....	31.3	28.2	60.4	-11.5	-21.9	52.5	84.7	84.4	91.3
65 years and over.....	75.5	72.1	118.8	13.3	3.0	108.7	164.5	164.9	154.6
<b>Northeast:</b>									
All ages.....	33.9	27.9	99.4	5.7	-9.6	101.5	60.9	60.0	90.1
Under 15 years.....	30.1	22.0	105.4	11.9	-9.0	106.8	44.6	42.8	98.9
15 to 64 years.....	33.4	27.9	94.3	3.4	-11.1	96.2	63.8	63.0	85.7
15 to 44 years.....	47.9	41.8	106.4	17.4	7	107.8	77.0	76.2	100.0
45 to 64 years.....	8.4	4.4	64.9	-19.0	-28.8	67.5	38.9	38.5	53.3
65 years and over.....	47.7	44.2	123.7	5.0	-3.4	130.3	99.5	99.6	100.0
<b>North-central:</b>									
All ages.....	44.2	39.6	83.2	0	-17.9	86.7	95.5	96.6	58.3
Under 15 years.....	33.9	27.6	78.5	.8	-22.0	81.8	65.9	66.2	54.5
15 to 64 years.....	47.1	42.8	84.5	-2	-17.3	87.8	104.2	105.5	60.1
15 to 44 years.....	61.5	56.7	101.3	12.6	-7.5	104.6	116.8	118.0	76.1
45 to 64 years.....	18.5	16.1	44.0	-23.2	-33.9	46.8	76.5	77.9	23.2
65 years and over.....	62.3	59.6	100.6	-9	-11.2	106.9	172.5	174.8	65.2
<b>South:</b>									
All ages.....	74.6	66.9	105.5	22.0	.8	82.2	144.3	140.3	174.0
Under 15 years.....	60.1	49.6	95.3	17.2	-8.1	74.5	111.6	105.4	150.5
15 to 64 years.....	77.2	69.3	111.5	22.3	1.3	86.4	151.8	147.2	189.4
15 to 44 years.....	88.0	76.6	136.4	32.7	6.8	109.1	159.1	151.7	219.2
45 to 64 years.....	53.2	53.3	52.9	.5	-9.6	34.2	133.7	136.0	114.5
65 years and over.....	116.7	117.8	111.7	38.3	26.6	87.1	249.4	257.1	188.0
<b>West:</b>									
All ages.....	98.7	93.9	150.0	33.4	17.5	140.3	153.4	152.5	171.2
Under 15 years.....	88.3	81.1	153.9	36.3	15.0	147.8	124.4	122.0	166.0
15 to 64 years.....	103.1	99.2	145.7	33.8	19.2	134.7	163.6	163.1	170.9
15 to 44 years.....	117.7	113.5	158.7	47.3	30.6	148.5	174.8	174.4	181.2
45 to 64 years.....	71.8	68.9	109.2	8.3	-1.6	97.4	136.6	136.4	139.0
65 years and over.....	105.5	102.2	176.3	23.0	14.2	161.8	207.7	207.4	219.0

<sup>1</sup> 1960 boundaries of SMSA's used for 1960; 1967 boundaries of SMSA's used for 1985.

Source: Hodge-Hauser, op. cit., p. 42.

# Part II. Housing Programs

## Introduction

### SOME COMMENTS ON EVALUATING HOUSING PROGRAMS

Much of the testimony on housing for families of low- and moderate-income before the Commission was helpful and informative. Certainly it was more realistic than might have been expected only a few years ago. Some of it, however, reflected attitudes, clichés and half-truths that have accumulated in public discussion of housing policy over the past 35 years or so and that pose serious obstacles to analysis and clear thinking. Moreover, many of them obscure the real issues.

As a possible aid to those who will read its report, therefore, the Commission suggests a few basic facts about housing and a few ways of looking at it that may avoid at least some of the errors and dead ends of too many earlier discussions. To some readers, these facts and perspectives may seem elementary or even superfluous. But we submit that, taken together, they clear away much deadwood and open the way for useful ideas about what has been done in the past and may be done in the future.

#### *A definition*

Housing is both a product and a process. Leaving aside the process for the moment, housing as a product is more than structures and enclosed space. It includes all of the immediate physical environment, both within and outside of buildings, in which families and households live, grow, and decline. It is largely man made. Its primary functions are three: to provide (1) comfortable shelter; (2) a proper setting, both within the structure and in its neighborhood, for the day-to-day activities of families and households, of small, informal groups of children and adults, and of the individuals who make them up; and (3) the locus or location of families and other groups within the larger physical pattern of the locality. This is simply saying a little more explicitly—a decent home and a suitable living environment.

Perhaps a brief comment on (3) would be in order. It is basically a simple idea, but often receives less attention than it deserves in discussions of housing.

When any reasonably intelligent person is looking for a house for himself and his family, he almost always asks for, or if the situation is favorable the real estate salesman offers, information about the availability of schools, churches, shopping facilities, parks or playgrounds, at least some centers of employment, and often about the location of buslines, hospitals, or clinics, or a branch library. Many prospective house buyers or renters also will check with friends or associates who live in the locality on the quality of the public schools, of the medical facilities and services, or the climate in race relations. Occasionally, an unusually thorough person will even investigate insurance rates on protection against fire and theft or statistics on crime or public health.

Such inquiry obviously is based on a common-sense, unexamined recognition of the fact that when a person buys or rents housing, he is purchasing, in addition to the use of the building and lot, two things: rights to the facilities and qualities of the immediate neighborhood, and access to the services and facilities of the larger community.

The Watts area in Los Angeles offers a classic example of the importance of these factors. In many respects—condition of dwellings, density of population, recreational and open space—it clearly is superior to most low-income neighborhoods. Many of the major and expanding employment centers of the Los Angeles metropolitan area, however, are practically inaccessible to Watts residents except by private motor cars, which many of them do not own. Bus connections are long, complicated and expensive. We were told that their schedules simply make it impossible for a resident of Watts to reach some major job centers in time for the normal daytime shift. Housing in Watts, therefore, is poor housing for many low-income residents, and they know it and resent its crippling effects on their efforts to better their economic position.

As dispersal of employment centers in major metropolitan areas continues, conditions of

this kind will become more and more common unless more effective planning is done for the development and redevelopment of these areas. Although this raises many questions outside the scope of the Commission's assignment, we do wish to stress their vital importance not only in the provision of good housing but also in other aspects of the economic and social health of these great areas.

Looked at in this way, housing clearly is the end product of substantial activity and sizable financial outlays by both private and public agencies. Unfortunately, no really satisfactory information is at hand as to the relative size of these contributions, but experience and a few small, scattered studies indicate that the public effort is much more substantial in nearly all sectors of the housing market than is generally recognized. Of course, standards for public facilities and services vary widely, but by any generally acceptable standard for today's living in the most affluent society in history, community or public overhead, provided at present price levels for local parks and playgrounds, residential streets and alleys, water supply, storm and sanitary sewers and treatment facilities, elementary schools, police and fire stations, etc., runs into thousands of dollars per family housed. Similarly, operating expenses for the services provided through and in connection with these facilities are substantial and growing—as almost every property taxpayer knows only too well.

If anyone is inclined to object that these facilities and services are not housing, let him ask himself whether he would consider his family properly housed in an area in which they were either lacking or seriously deficient. If he has visited recently a slum area in his city, let him consider how much of what may have shocked or appalled him was tied directly to such lacks or deficiencies.

Urban housing as the immediate physical and service environment for individual and family living is the complex product of both private and public effort and investment.

#### *A false issue*

Even as to the shelter or dwelling components of housing, the long-standing controversy of private-versus-public housing is largely over a false issue. Practically all public housing in this country has been designed by private architects and engineers and put up by private building contractors. To be sure, some of these producers of public housing have built relatively little housing for sale or for private investment, but that fact does not make them less enterprisers or less parts of the private economy. Of course, public housing is built under rules

and regulations of public agencies. Here, again, the difference is only one of degree; private builders are also subject to public regulation through building and allied codes and, in some instances, to the standards of FHA and the Veterans' Administration.

Often it is alleged that the significant difference lies in the subsidy given public housing. But, again, how much does this difference amount to? One school of thought even puts the shoe on the other foot. Alvin L. Schorr of the Department of Health, Education, and Welfare has written:

Important to the question of a nation's relative investment in housing is the manner in which it allocates such investment to those who are poor and those who are not. A simple fact lies at the core of our failure to provide adequate housing for poor people: we have never spent for their housing a sum of money that begins to offset the disadvantage they suffer. Two pairs of numbers will establish the dimensions of this situation. In 1962, the U.S. Government expended an estimated \$820 million to subsidize housing for poor people. (The sum includes public housing, public assistance, and savings because of income tax deductions.) In the same year, the Federal Government spent an estimated \$2.9 billion to subsidize housing for those with middle incomes or more. This sum includes only savings from income tax deductions. \* \* \* The Federal Government, in other words, spent three-and-one-half times as much for those who were not poor as for those who were, or about as much per person for the poor and nonpoor.

These are not conventional and some would say not impeccable statistics. Public assistance, public housing and income tax are not often combined. There is no doubt, however, that they represent the consequential Federal subsidies for housing. Only urban renewal is omitted since it is impossible to divide the Federal subsidy between business and residential purposes and to determine what portion of the latter would be for poor people. Loan guarantees are also not included in these figures. Since they do not cost the Government money, they are not regarded as subsidies. In any event, both omissions weight the estimates on the conservative side. Neither urban renewal nor mortgage guarantees conspicuously serve poor people. Finally, an income tax deduction is quite as effective a grant of money as a public assistance payment.

The pair of figures offered above does suffer, however, from dealing with the 145 million people who were not poor as if they benefited uniformly from Federal subsidies. Closer examination shows that the subsidy is heaviest for the largest incomes. Therefore, a second, rather more refined, pair of figures is helpful. In 1962, the Federal Government spent \$820 million to subsidize housing for poor people—roughly 20 percent of the population. For the uppermost 20 percent of the population (with incomes over \$9,000), the subsidy was \$1.7 billion. Thus, a family in the uppermost fifth received about twice as much, on the average, as a poor family.

The composite picture is as follows: The income tax deduction is by far the Government's largest direct subsidy for housing. It gives more to those who have more. The two programs that express the national conscience in housing—public assistance and public housing—together manage to raise poor families to per capita equality with the income tax subsidy that goes to all the rest. No more than that is accomplished. Indeed, the result is less, for the poorest fifth receive



only half the subsidy that goes to the wealthiest fifth. This policy will not build a sense of community, nor will it build the housing that is needed.<sup>1</sup>

What, then, has all the verbal shooting on the subsidy question been about? Much of it surely has been firing at shadows and hobgoblins, and the resultant confusion undoubtedly has slowed down the very modest attempts made so far to improve the housing of the poor and near-poor in American cities. The only significant difference between private and public housing is that in the latter the basic decisions as to what kinds and amounts of housing are to be built, when and where, are made by public officials in responsible legislative bodies and administrative agencies. In private housing most, but not all, of such decisions are made in and through the housing market.

The generally unacknowledged Federal subsidy to nonpoor families suggests one good rule or requirement for public subsidies: to the greatest extent feasible, they should be given in forms in which they can be readily recognized and measured. Only then is it possible to make reasonable judgments as to the wisdom of the policy or program that authorizes them. Most tax subsidies are seriously deficient in this respect.

#### *New housing and filtering-down*

Probably the most telling popular argument against government aids in housing for low- and moderate-income families is summarized in the remark often made by people of middle and upper middle income to the effect that: "My family and I do not live in a new house and never have. Why should the Government subsidize new housing for the poor?" Much the same idea underlies the continuing belief that, somehow or other, the filtering down process can be made to work so that it produces for the poor and near-poor reasonably acceptable housing instead of the slums and blight that it has produced for them in the past.

By now two things ought to be clear on this front. First, a middle class family moving into an existing house built and initially occupied by some other family of about the same or only slightly higher income is simply not a comparable event to a poor family moving into a decades old, obsolete dwelling that has undergone many changes in occupancy, always to lower income people, typically with poor maintenance and repair, and with unwise and often illegal conversions as the owner has tried

or been forced to adjust to the lower incomes of his tenants.

Also, filtering down clearly is an example of a process that works well within limits, but very poorly when forced beyond those limits. We recognize scores of similar limits in everyday life. The motor in one's automobile may move it around very well indeed; try to use it to power a sizable airplane and the results would be ludicrous or even disastrous.

For reasons indicated in the next chapter, market conditions have been extremely favorable for the filtering-down process since the early or middle 1950's in most urban areas. Housing production has outrun household formation by 50 percent. The migration of low-income families largely into central cities of metropolitan areas has been offset or, in many areas, more than offset by outmigration of more well-to-do families to the suburbs and rural-urban fringes. From 1950 to 1960, in the 15 largest metropolitan areas of the country, which in 1960 had almost 46 percent of the total metropolitan population, 14 central cities showed actual decreases in population that ranged from 1.1 to 13 percent. (The exception was the Los Angeles-Long Beach area.) Almost surely this decline has continued. The latest sample survey by the census indicates that from 1966 to 1968 both the aggregate Negro and white populations in central cities declined.<sup>2</sup> Using the rockbottom definition of substandardness from the census data, the results of filtering down are quite evident. If the definition were a more reasonable one, the results would be much less impressive, but undoubtedly some improvement from filtering would be evident. Yet, in the poverty areas, and in many other parts of cities, bad housing is only too common. Filtering down is not enough; a large-scale, frontal attack on bad housing conditions must be launched if the national housing goal is to be approached.

Of course, nothing in our position on this question should be taken as denying the possibilities of some rehabilitation of dwellings in housing the poor and the near poor. Public aids are now available to this end, and despite many difficulties, are being tried out in many cities.

#### *Housing and antipoverty programs*

On the whole, the present official and popular concern with poverty in our society has strengthened the hands of those who have been trying to better housing for the poor and near poor. However, at least two common ideas of some advocates of antipoverty measures—for example, the negative income tax and guaran-

<sup>1</sup> Alvin L. Schorr in Warner Bloomberg, Jr., and Henry J. Schmandt (eds.) *Power, Poverty, and Urban Policy* (Beverly Hills, California, Sage Publications, Inc., 1968), pp. 145-146. More on Mr. Schorr's estimates of subsidy amounts are in his article, "National Community and Housing Policy," *The Social Service Review*, Vol. XXXIX, No. 4 (Chicago: The University of Chicago Press, 1965), pp. 434-435.

<sup>2</sup> This July, 1968 Census report subsequently was questioned as to the validity of the findings by Census and other officials.

teed annual income—are being misapplied by some to the housing needs of the poor.

Sometimes it is implied that a guaranteed annual income would do away with the need for housing programs or aids for the poor by enabling them to obtain acceptable housing in the ordinary real estate market. But would they? The Commission thinks the answer, at least for many years to come, is clearly no. No serious proposal made so far as to the amount of a guaranteed annual income, let alone one that would have any chance of adoption, would do away with the need for housing aids. Such an antipoverty measure would lighten the load on some housing programs, but they would still be needed.

Some popular advocates of the remedy-for-poverty-is-more-income school of thought seem to think that *more income* simply means more money coming in. A housing subsidy, for example, that of the conventional public housing formula, would not be more income for the family in such housing, but a mere palliative for one of the consequences of poverty, according to this view.

This view neglects the old and significant distinction between money income and real income—the flow of benefits, satisfactions, or utility that an individual or family is able to command over time through the expenditure of its money income or in other ways. This distinction is now generally recognized in discussions of inflation. Decades ago, Mr. Dooley put it as well as anyone when he said that inflation meant that the worker's pay envelope might be a little fatter but it left him "the same relative distance from a sirloin steak." Conversely, a housing subsidy of, say, \$60 a month for a dwelling unit added to the \$50 that a poor family might be able to pay would improve substantially the quality of its housing. It would be an addition to the family's real income just as surely as if the family received \$60 a month more in its pay envelope.

The same question with a slightly different twist came up in the testimony of a representative of a Negro neighborhood in a large eastern city. She pointed out forcefully that one of the consequences of racial and economic segregation was a commercial exploitation of poor families. They were overcharged by stores for inferior merchandise; the credit arrangements were tricky, unfair, and exorbitant. Only a few minutes later, she was arguing for housing subsidies in cash to families unable to obtain decent housing. In many circumstances, would not this simply lead to bidding up the rents and purchase prices of the same poor quarters? She thought not, but certainly this would be one possible, or perhaps probable, result. An in-

crease in purchasing power for housing that does not, at the same time, increase materially the supply of housing available, can only result in higher prices for the existing supply unless, of course, other means of increasing the available supply are in operation at the same time.

It should be clear that nothing in the paragraphs above should be taken to rule out all money income supplements as devices for improving housing for the poor and near poor. For some families in some circumstances, such supplements may be a desirable form of housing subsidy. Here we would emphasize only that they are no panacea, and the possibility of realizing them is no reason for throwing overboard all other forms of housing aid.

### *People versus buildings*

The current antipoverty program with its emphasis on community organization and participation seems to be leading to another false issue in housing—people versus buildings. Too often it is being said and implied today that the earlier proponents and administrators of government-aided housing were simple-minded environmental determinists—that is, they believed that if a poor family could be moved from deteriorated, unsanitary housing into decent quarters, all or nearly all of its social, behavioral, and economic problems would disappear. Whatever one may think of the ideas and actions of these earlier housers, they were not so naive—witness their concern with the role of housing managers in community activities among tenants and with helping them to make use of available social and welfare services, public and private. Although some of the earlier concern with such matters receded when public housing languished after World War II, they are still pertinent and even central to effective low-income housing.

The Commission's concern here, however, is not in defending earlier program ideas. We do wish to emphasize that any approach to slums and blight that tends to polarize physical improvement of such areas and the improvement of their social organization and functioning, or to present these kinds of programs as competitors rather than as supplements to each other, is false. Both are not only desirable but required if the national housing goal is to be reached.

### *Flexibility in existing programs*

The Commission also wishes to warn against the common tendency to assume that current programs are more restricted and rigid than they actually are. It is right and proper that more attention be given to what a program actually produces than to the language of its basic legislation or its administrative interpretation. On the other hand, it is a mistake to assume



without questioning that current practice necessarily is all that can be done under existing authorizations. For example, in recent years, FHIA has changed its outlook and effort on behalf of some programs that do not (and were never intended to) fall within its initial limitation of "economic soundness." Again, many recent proposals and discussions of rehabilitation as a means of improving housing for poor families have gone ahead in apparent ignorance of the fact that the definition of "development" in section 2(5) of the Housing Act of 1937 includes this sentence, which was in the original act and is not a later amendment: "Construction activity in connection with a low-rent housing project may be confined to the reconstruction, remodeling, or repair of existing buildings."

Perhaps an even better example is the common misconception that somehow public housing developments must be massive, monotonous, multistory complexes separated visually and socially from their environs. This is completely false. As a matter of fact, except in a few of the larger cities, most existing public housing departs from this "image" in at least some important respects. And even more significant departures from it—for example, so-called "vestpocket projects"—are entirely feasible.

This is not a plea either for stand-patism on existing programs or for loose interpretation of existing statutes. It does point out that careful examination of existing legislation for some key programs may reveal more flexibility and adaptability than they are commonly credited with.

#### *Building versus regulation*

Fortunately one hears less these days than formerly of views that set against each other programs for new construction and measures of police power regulation—e.g., in housing, health, and building codes—as means of bettering low-income housing. The either/or approach, however, is deeply ingrained in much otherwise effective thinking and too often shows through. We would call attention to three facts that show the falsity of the view: (1) Since 1946, the volume of nonfarm housing construction in this country has been equal to about three-quarters of the total stock of nonfarm housing in existence at the beginning of this period. (2) The Commission's population consultants project a metropolitan population increase from 1960 to 1985 of almost 73 million persons, or 41 percent of the total population of the country in 1960. (3) One of the most ominous though hard to measure developments in urban housing since World War II has been the growth and spread of the "gray areas," particularly although by no means only in the central cities of metropolitan areas. The Com-

mission regrets that it did not have the time necessary to inquire more fully into this change, but certainly it is, in part, one of the byproducts of filtering-down. Certainly one part of any remedy indicated is better housing codes better enforced.

#### *What housing costs?*

The Commission has come upon many instances of the difficulties that result from lack of agreement on how best to measure housing costs. Without agreement on this point, confusion is inevitable when attempts are made to compare the objectives and accomplishments of existing or proposed programs for housing low- and moderate-income families. We believe that the best single measure is annual housing cost to the housing consumer. For the renter, this usually is the amount of rent paid plus any additional payments for utilities or municipal charges—e.g., a water charge or tax. For the owner or owner-occupant, it is the sum of his payments for interest and amortization of his mortgage indebtedness *plus* property taxes *plus* expenses of repair and maintenance *plus* depreciation allowances for water, heating and other equipment with shorter economic lives than the building *plus* income foregone on his equity in the house *plus* depreciation on the building in excess of mortgage amortization payments *plus* utility and municipal charges *minus* Federal income tax reduction from deductions of property taxes and mortgage interest.

This is by no means a foolproof formula. Questions can be raised on several points. One of the most troublesome is whether the expenses of the journey-to-work ought to be included. Some land and often some construction costs may be saved by building housing on outlying sites, but often at the expense of longer and more costly journeys-to-work. To the extent that land-construction costs reflected in rents or financing charges and expenses of journeys-to-work are roughly reciprocal, why leave out the latter? Its inclusion, however raises other difficulties, notably those tied to the outward movement of industrial and other centers of employment. Also, nice points may be raised on how to treat amortization (is it an expense or a form of saving?) and depreciation.

Such questions aside, however, the annual cost concept is clearly most useful for many purposes and comparisons. Saying this, of course, does not deny the usefulness of other measures for some purposes—e.g., construction or development costs when subsidy payments are tied to these. For most purposes, however, annual cost has clear advantages in inclusiveness and in emphasizing the relative size of its many components. It also points up the relationships



among the different components. For example, higher construction costs usually mean higher annual interest and amortization payments as well as higher property taxes. Conversely, construction costs may be reduced in ways that add to expenses of maintenance and repair.

### *Home ownership or renting*

One of the less edifying controversies of the early days of Federal programs in housing was a dispute over the advantages and disadvantages of homeownership. The main trouble with the debate was not the issue but the sweeping and unqualified nature of the claims and charges on both sides. In the 1930's, FHA programs heavily emphasized home ownership, and public housing programs were exclusively for rental housing. Since then, the line of demarcation has been considerably blurred and broken. FHA is in mortgages for rental housing of various kinds; local authorities with HUD-assisted housing may now, under specified conditions, enter into contracts for sale of some kinds of units to their occupants.

Quite recently have come suggestions for Federal encouragement of homeownership among low-income families as a means both of countering some of the alienation, rootlessness and discontent among so many of these families and, secondly, of attacking the poor upkeep and repair of houses that is so widespread in low-income and poverty areas. The fact has come to light that the proportion of home ownership among these families is considerably higher, nationwide and particularly in some metropolitan areas, than has commonly been assumed. Now the Housing Act of 1968 calls for a Federal subsidy program for home ownership among families of lower income. In some of its visits, the Commission saw and heard of some of the problems that follow unwise attempts by inexperienced, relatively recent migrants to metropolitan areas to buy homes, as well as some of the ways they can be exploited.

On this subject, the Commission offers only these comments here: Home ownership by lower-income families is not a panacea for all their housing ills, let alone for their economic, social and psychological difficulties. Wise decision as to who should own, when and where is not a simple matter. The pertinent considerations go far beyond the simplistic claims that owning a house makes a man "a better citizen" than does owning any other kind of property, or that home ownership is always a millstone around the neck of a low-income wage earner because it hinders him from seeing and taking opportunities for better jobs in other places. Finally, the Commission believes that the subsidy program for home ownership in the Act of 1968 deserves a vigorous and fair trial.

### *Workable program*

Urban housing and other forms of urban development have long suffered from insufficient attention to the simple fact that what is built on one site inevitably has side effects on development on other sites—whether the first site is used for a private house apartment house, or manufacturing plant, or for a public school, playground, or traffic artery. A city is a system (or subsystem), the units of which do act upon one another—sometimes favorably and sometimes unfavorably. Much of modern urban planning and its often wayward handmaiden, zoning, have grown out of increasing recognition of these tie-ins among land uses.

One corollary of this "systems" view of cities is that serious weaknesses—e.g., slums, spreading blight, traffic congestion, and racial antagonisms—can seldom be corrected by any one program or line of action. They will yield only to a combined operation of remedial measures. This, of course, does not imply that all of the needed remedies are equally effective. It does say that a wisely selected combination or mix of actions is much more effective than any one measure.

Two recent related trends have made these relationships even more significant. Much urban development now comes in bigger packages than it used to—large-tract development, high-rise apartment houses, industrial plants and estates taking up many acres, shopping centers, larger school plants, multi-lane and more heavily travelled highways. Also, the product of such Federal aid programs as urban renewal and public housing are relatively large-scale undertakings—some of them, no doubt, too large. As the size of the units of development has increased, so have the number, force and complexity of their external influences on people, municipal services and other land uses.

Unfortunately, the coming of Federal aid often has drawn attention away from these relationships and focused it on projects. The requirements of an aid program demand so much time and attention that the side effects of the aided projects are almost ignored—a pathologic condition sometimes referred to as "projectitis." A related tendency is to neglect well-established municipal programs that are less flashy or exciting than is creation of a multimillion-dollar development. Why worry too much about a better housing code better enforced when HUD will pick up most of the check on an urban renewal project, including a supporting school or neighborhood park or health center? Of course, these new facilities will require more money to maintain and operate, but this ought to be forthcoming somehow over the years.

In the Housing Act of 1954, Congress recognized the problems that stemmed from excessive emphasis on renewal and public housing projects. As a partial remedy, it set as a condition of Federal aid the approval by HUD's predecessor, the HHFA, in each aided locality of a "workable program." The language in the act was not very specific. It said:

No contract shall be entered into for any loan or grant \* \* \* unless (1) there is presented to the Administrator [of HHFA] \* \* \* a workable program (which shall include an official plan of action \* \* \* for effectively dealing with the problem of urban slums and blight \* \* \* and for the establishment and preservation of a well-planned community with well-organized residential neighborhoods of decent homes and suitable living environment for adequate family life) for utilizing appropriate private and public resources to eliminate, and prevent the development and spread of, slums and urban blight, to encourage needed urban rehabilitation, to provide for the redevelopment of blighted, deteriorated, or slum areas, or to undertake such of the aforesaid activities or other feasible community activities as may be suitably employed to achieve the objectives of such a program. \* \* \* (Sec. 303 of the act of 1954, amending sec. 101 of the act of 1949.)

In 1961, the official term was changed to a *workable program for community improvement*, but it still is commonly referred to simply as a workable program.

HHFA spelled out the basic idea by saying that a workable program should have seven components: (1) a plan for the orderly growth of the city, (2) identification and analysis of neighborhoods that would include but not be limited to blighted or slum districts or to those with defective housing, (3) modern and well-enforced police power measures controlling urban development—that is, building and housing codes, (4) administrative organization adequate to handle proposed projects and the other parts of the workable program, (5) financial capacity to meet required local grants and other costs of the improvement program, (6) arrangements for handling relocation of displaced families and businesses, and (7) means of assuring a substantial degree of public participation in urban renewal and allied planning and development.

When Congress acted, many localities simply could not qualify under any reasonably firm application of these seven requirements. HHFA, therefore, adopted a policy of gradualism. It was lenient on first-round approvals, but required periodic recertifications and tried to step up the performance standards as time went on.

Later, Congress made the *workable program* requirement a condition of sections 220 and 221(d)(3) housing, for rent supplements (by action on an appropriation act in 1966), and for five lesser HUD-aided programs. It specifically exempted leased housing ("low-rent housing in private accommodation") in authorizing

this program in 1965. It never has set this condition for the nonassistance programs of FHA or for HUD's nonhousing grants—for example, those for basic sewer and water facilities, mass transportation facilities, or open space land. In light of the rationale and objectives of the workable program, these omissions may seem rather hard to justify. Perhaps a workable program for, say, water and sewer facilities might differ somewhat from the seven-point one for renewal and low-income housing, but the need for offsetting "projectitus" and for encouraging a hard look around and ahead is scarcely less urgent for water and sewer projects than for renewal.

Clearly HUD's task in administering the workable program requirement calls for wise judgment and a nice sense of tactics. The Commission has not tried to evaluate the results to date. It does know that HUD has worked faithfully to carry out the intent of Congress and that the requirement has produced some substantial results. For example, in 1954, only a handful of cities had housing codes; today, the number is in the thousands.

It is sometimes alleged that the workable program requirement has been a major obstacle to more widespread and effective action on several HUD programs, notably public housing. Reluctant local officials and opponents of public housing can say, in effect, "Why, we can't undertake public housing; we don't have an approved workable program and without it HUD can't give us any aid."

Possibly this kind of evasion of the substantive issue of low-income housing need may be effective, temporarily, in some localities, but certainly local citizens urging the housing could easily counter this excuse. Besides, although there is no outside compulsion on local officials to qualify for workable program approval, it is equally true that there is no outside compulsion on them to apply for public housing aid. And the Commission knows of no evidence that local efforts in public housing languished any more noticeably after 1954 than they did in the years just preceding the adoption of the workable program requirement. In short, we cannot support the view that the workable program is an insuperable roadblock to public housing.

For somewhat higher-income housing to be provided by nonprofit, limited-profit corporations and cooperatives, the roadblock argument is somewhat stronger. Quite often these organizations might wish to go ahead under the terms of 221(d)(3) or rent supplements in localities where officials and other influential groups oppose housing for low-income and nonwhite residents. The opponents then would have a substantial advantage in the workable program



requirement, despite the fact that the housing proposed would not require, as public housing does, official local approval and local subsidy. In other words, in respect to public housing the workable program requirement does not make much difference, since a city council that wants to keep out housing for low-income and Negro residents can simply refuse to enter into the necessary cooperation agreement—accepting 10 percent of rents in lieu of taxes, et cetera. As to 221(d)(3) and rent supplement housing, the workable program requirement is the only condition set by Federal law that can be used to deny the proposed housing. Of course, even if the workable program requirement were removed for this kind of housing, such opposition, official and nonofficial, could make the road of nonprofit corporation or cooperative very rough.

Here, indeed, is a difficult issue. The rationale of the workable program makes much sense, but the requirement may be misused as a device for economic and racial discrimination and segregation. Two remedies are available: (1) Remove the requirement as a condition of Federal aid to nonprofit, limited-profit, and cooperative housing under 221(d)(3) and rent supplement programs. For the short-range future, at least, they are unlikely to produce a large enough volume of housing to influence urban development greatly. Besides, local planning controls such as zoning ordinances and official maps would be applicable to them. (2) Apply the workable program requirement to all Federal housing and development aids, including FHA and sewer and water grants. Then very few localities would refuse to qualify a workable program; its benefits would be considerably extended; its misuse as a segregation device would be almost eliminated. The logic of the second remedy speaks for itself.

### *Resources*

Naturally and properly, the Commission's recommendations, particularly those on housing, raise questions of cost. These are dealt with at various places in the report, and should always be considered in light of their probable benefits—tangible and intangible. Here, however, the Commission is concerned not with money but with another resource just as essential to successful prosecution of future programs—intelligent, trained and skillful personnel.

The Commission knows that much of what has been accomplished in housing in recent years has been due, in no small part, to the efforts of able and devoted persons in governmental agencies at all levels, in nonofficial organizations and agencies, in various profes-

sions, and in private organizations operating under the programs. Altogether too few of these people have received adequate recognition or thanks for what they have done. Instead, too often they are blamed for their own shortcomings and mistakes and for those of their less able or conscientious associates, as well as for inadequacies in the programs they are trying to carry out. In our official visits to 20 or so urban areas, as well as in Washington, we met many dedicated housing officials and experts, and became aware of many more. The Commission's hat is off to them; they deserve well of the Republic; they are one of the brightest spots in the current housing scene.

The Commission believes, however, that it is almost painfully evident that the scale and range of what it is proposing would call for a very substantial increase in the number of highly qualified public servants. By highly qualified, we mean not only intelligent and capable in the duties of whatever posts they may occupy, but also well grounded in the needs their programs are supposed to meet, dedicated to their purposes, and sensitive to the personal and social problems of those affected by them.

For several reasons, too many staff members of housing agencies, whatever their native abilities and technical skill, have been weak or lacking in these other qualifications. They came to their housing jobs from other Government agencies, from different professions, from private businesses of many kinds. Housing agencies and programs were relatively new, with very little tradition and very few norms of successful performance, often with a rather weak and perhaps confused rationale that no one took the time to explain to new members of the organizations. Although clearly this is not a statement that can be buttressed with much hard evidence, the Commission believes that a fair part of the weaknesses and disappointing performance of some programs is traceable to these conditions. To overcome them will require more than occasional exhortation from high-ranking officials or criticism from outsiders, useful as these may be at times.

In Federal housing legislation, Congress has provided for a broad range of educational and training efforts. The act of 1968 enlarges and strengthens them. Even more may be needed now or in the near future. The Commission urges the most vigorous use of educational and personnel training programs now available—pre-entry as well as post-entry—by agencies of Government as well as by others such as universities and professional societies. Unless this is done, it is quite possible that shortages of qualified personnel might turn out to be a more crippling limitation on the potentialities for



housing betterment than shortages of material, money or even public support.

*Urbanization and housing—Where?*

One simple characteristic of urban growth over the coming 20 years or more surely will be its sheer size or volume. Undoubtedly, the likely increase in urban population has been exaggerated by some commentators and some scare prospects have been conjured up. Nevertheless, as part I of this report made clear, the more responsible projections of urban and metropolitan populations are, at the very least, sobering to thoughtful observers, to officials, and business and professional people concerned with the complex processes of urban development. Its ramifications run into almost every sector of urban life. One very basic question that it raises is: Where are all these urban dwellers going to live and work and carry on all the multifarious activities that, in various mixes, make up the American way of life?

Although the Commission felt that this and many related questions were outside of its terms of reference, it does urge that they not be ignored or left to off-hand and ill-informed decisions. The answers will influence the effectiveness of many of the Commission's proposals and of plans being suggested by others in respect to public schools, recreation, protection of life and property, urban transport, the polluted environment, etc.

Some deceptively simple answers suggest themselves, and even now are being put forward. For example, one of the Commission's first witnesses said that an ominous difficulty in the urban future would be a shortage of urban land. This has a certain plausibility. To almost anyone approaching a metropolitan area by air the extent of dispersal—the outlying low-density development—is impressive. We know, too, that land prices in many urbanizing areas have increased sharply. Southern California is only the most dramatic example. So, it is argued, we are running out of urban land and, therefore, must increase the densities of population and activity within the existing metropolitan areas and pack in the newcomers. If many urban Americans want to get out of central cities to the suburbs or beyond to the rural-urban fringes (and the record of recent years indicates that they do), that is just too bad; they, and particularly their sons and daughters, will simply have to learn better. Besides, it is suggested, if we plan and build well, we can provide decent homes, and for a suitable living environment, such amenities as vest-pocket parks, vest-pocket schoolyards and playgrounds, handball courts, carefully designed courtyards, small squares and plazas, at an appropriate premium some dwarf trees and shrubs on setback terraces, and

air-conditioned subway trains. As a matter of fact, many otherwise thoughtful people seem to jump to something like this conclusion without even going through the simple steps of the argument.

On the other hand, is the supply of urban land so relatively fixed as this argument implies? In a very real sense, urban land is a manufactured commodity—manufactured out of non-urban land, largely but not entirely by public agencies that provide transport, streets, sanitation, schools and other basic community facilities and services. In 1960, more than 88 percent of the metropolitan population lived in the central cities and other urban territory within the SMSA's (roughly the "urbanized areas" defined by the census) on about .85 percent of the land area of the 48 contiguous States. Even if we assume that 80 percent of the land area of the country is not suitable for urban development because of topography, location or climate, we face no shortage in this country of the principal raw material for making urban land.

An equally serious error is the assumption that the broad pattern or configuration of metropolitan development must be either rather formless dispersal ("urban sprawl") or relatively high-density growth in and around one dominant center—the central city. It does not have to be either one. It does not even have to be what we have today in many areas—an incongruous and unstable combination of the two. Many other possibilities, each with almost numberless possible variations, do exist. One is what has become known as the "new towns" idea, which is being developed and applied in Great Britain, Scandinavia and many other countries. In origin largely British, its variations have tended to obscure the central objective, which is essentially a pattern of rather small or medium-sized cities (roughly 50,000 to 200,000 each) within a large urban complex. These are not bedroom towns primarily for daily commuters to some center, but communities with substantial employment as well as "decent home(s) and a suitable living environment," including all of the facilities and services essential to the day-to-day life of the citizens. These towns may be new in the sense of being developed *de novo*, but many of them are enlargements of existing settlements of one kind or another. Of course, commuting is not prohibited, and the old center need not wither away. Rather, it becomes more specialized on functions that require a high degree of centralization—e.g., large-scale finance and investment; or that can be supported adequately only by large populations—e.g., specialized hospitals and clinics or specialty retailing.

Another possibility is the multicentered urban complex, in which a large proportion of the population would live and work in very sizeable cities—in the larger complexes, cities of up to 400,000 or 500,000 or even more residents. The beginning of such a pattern is quite clearly seen now in and around at least the three largest SMSA's—New York, Los Angeles and Chicago. For New York and Chicago, this fact was recognized in a minor way in 1960 by the Census in defining what it designated as the *standard consolidated areas* of New York-northwestern New Jersey and of Chicago-northwestern Indiana.

Of a somewhat different order, but still germane to urbanization and housing, is the proposal now most commonly associated with the U.S. Department of Agriculture and Secretary Freeman. It calls for a major effort to attract some considerable part of future urbanization into nonmetropolitan urban centers and even smaller towns. To the extent that such a program might succeed, it clearly would relieve some of the almost intolerable load of the money and human costs of congestion in the larger centers. Quite as important, it could pump renewed life and vigor, economic and social,

into many smaller places whose health is being eroded by neglect and misunderstanding of the requirements of our changing economy. Clearly, the difficulties in such a program would be formidable, but it deserves careful attention and discussion.

This is a fundamental question for the future of urban America. It has not had nearly enough consideration or debate, and most of what it has received has been superficial and not too useful. If the basic issue is left to chance, the odds are that the advent of the next 100 million urban residents will produce a scene of confusion, waste, and turmoil that will make conditions today, by comparison, seem orderly and placid. The possible benefits of many of the recommendations of this Commission and similar groups could be largely nullified. Finally, no good reason exists for believing that this question admits of one and only one answer, good for all times and places. Quite the contrary: The Commission's plea is not for some kind of artificial uniformity, but for intelligent analysis and foresight not limited to what has been produced in the past by an economy, social organization, and technology radically different from today's, let alone tomorrow's.

## CHAPTER 1

# Housing Needs

One of the most enduring sources of controversy and misunderstanding in urban affairs has been the issue of *housing needs*. At bottom they are, at any moment of time, the needs of the families and other households who do not have what the Congress, in the Housing Act of 1949, called "a decent home and a suitable living environment." Overwhelmingly, these households are among the poor, the near poor, and the lower economic middle class.

Much of the controversy comes on two points:

- (1) In more concrete terms, what is a *decent* home and what is a *suitable* living environment?
- (2) What of needs beyond those of the present moment? How many more households will be formed over the coming 5, 10, or 25 years? What will they be able to spend on housing? Where will they want to live? Will internal migration of our physically mobile population result in surpluses of decent housing in some localities and serious shortages in others? How many presently acceptable houses will slide into the substandard category through the ravages of age, neglected maintenance and repair, and shifting land uses in our many growing and ever-changing urban areas?

In other parts of this report, the Commission has tried to come to grips with many of these questions. Here it presents an overview of needs, primarily in quantitative terms, for housing, looking at the present and estimating the future in light of the immediate past. But first, we must call attention to the major handicap in this matter of housing need—the unbelievable inadequacy of the data, which we discuss later in some detail.

### *Twenty years of middle and upper income housing*

The Nation has made a phenomenal record over the last two decades in building housing for the middle and affluent classes, mainly at the edges of the central cities and in the suburbs. The efforts of private enterprise account for most of this construction, but Government policy has provided significant incentives and help through mortgage guarantees, secondary credit facilities, and Federal income tax deductions for interest payments and local property taxes. The intent of Government policy—and its

effect—has been to increase substantially the rate of homeownership.

The extent to which Government policy has subsidized the private homeowner is not generally recognized or acknowledged. The homeowner who deducts interest and property taxes as costs in computing his Federal tax return is not required to include the imputed value of rent as a part of his income. This generous but generally unacknowledged Federal subsidy to the affluent or middle-class homeowner needs to be emphasized in view of the self-righteous opposition often expressed toward subsidized housing for the poor.<sup>1</sup>

### *Scanty aid for low-cost housing*

In contrast to its truly amazing record in housing construction for the upper half of America's income groups, the Nation has made an inexcusably inadequate record in building or upgrading housing for the poor to provide them with decent, standard housing at rents and prices they can afford.

Low-rent public housing built since the 1930's does provide housing for about 2.4 million people and includes an inventory of almost 700,000 units. But today, even by the most liberal calculations, less than 100,000 units a year of all kinds are being built or "made available" under low-rent housing programs—newly constructed public housing, rehabilitation, leased housing units, rent supplements, rent certificates, and other programs. And this small annual total has only been reached in the most recent years.

Even under these programs, the very poor have virtually been excluded. The amounts of subsidy available under the most generous programs often are insufficient to help them. The most needy also are rejected by the administrators of programs and the managers of projects because these poor bring with them so many problems.

It is in part for this reason that a disproportionate share of the units built or made available under public housing in recent years—more than half—has gone to the less troublesome elderly. While not enough is presently built either for them or for other needy groups, fami-

<sup>1</sup> Alvin L. Schorr, "National Community and Housing Policy," *Social Service Review*, Vol. XXXIX, No. 4 (Chicago: University of Chicago Press, December 1965).



lies living in poverty have had very little help under existing housing programs.

In addition, with very few exceptions, little has been built for poor families in the large central cities, for much of the small amounts of public housing built for families has gone to middle-sized cities.<sup>2</sup> Further, very few units of three or more bedrooms have been built at all, so that a huge housing gap for the large, poor family exists not only in the larger cities, but nearly everywhere.

Furthermore, over the last decades, Government action through urban renewal, highway programs, demolitions on public housing sites, code enforcement, and other programs has destroyed more housing for the poor than government at all levels has built for them.

Meanwhile, in the past, relocation assistance to persons and businesses displaced through Federal, State, and local public works programs has been inadequate, nonuniform, and for some programs—completely absent.

While public housing, its related programs, and the 221(d)(3) program for moderate-income groups have been of some slight help<sup>3</sup> in meeting the housing needs of the poorer half of the population, urban renewal has essentially been irrelevant to the housing needs of the poor. While the centers of some of our cities have been transformed by urban renewal into attractive business and higher income residential districts with a consequent strengthening of local tax base, very little low-income housing has been built on renewal sites. Fierce arguments may ensue as to whether this was by design or the result of the administration of the program. But few would dispute the fact that to date it has not served to help house the poor.

Finally other provisions of housing and urban legislation by which local agencies have bought and preserved open space, improved some mass transit systems, and built needed community facilities may well have improved the living environment of urban areas, but this benefit is largely general—that is, it is largely unrelated to the critical housing needs of specific segments of the urban population.

These facts make a strong moral case for action to help the most needy now. It justified the passage of the Housing Act of 1968 and, most importantly, it calls for carrying out the goals of the act on schedule.

It should be repeated that this responsibility is based not only on need. It is a moral requirement for the Nation. Having built generously for the most prosperous half of the Nation, and

having destroyed more housing for the poor than we have built, we now owe a special effort to provide decent housing for those who have in the past largely been left out.

### *Inadequacy of data*

Today, more than a generation after the Federal Government began to undertake various programs to influence housing production and housing conditions, and decades after improved housing was at least an objective of public regulation by local and State governments, there has been no satisfactory analysis of present housing needs and a similar estimate of probable future needs as guides for housing policy and programs. Aside from the hazards in predicting birth and fertility rates, the *basic facts* for such studies, in reasonable detail and refinement, are not available. In some respects this is the most damning indictment against the public concern, including but by no means limited to governmental concern, with housing in this country.

There are not even good working definitions of a *decent* home and a *suitable* living environment, the supposed anchor points of our national housing goal, used in what statistics are being gathered. Still more elusive, therefore, are the complex questions such as:

How many presently acceptable houses will slide into the substandard category through the ravages of age, neglect, and shifting land uses?

How many presently substandard houses could be made acceptable through rehabilitation?

What is the best balance between public and private investment in housing?

The only reasonably comprehensive data on housing conditions or quality are those of the Bureau of the Census. To say that the available data are inadequate is no adverse criticism of the Bureau, which has worked hard and intelligently on housing. A nationwide, decennial census, however, cannot supply the complete range of facts needed to judge housing quality. The Bureau knows this perfectly well. Its 1960 Census of Housing says:

The combination of data on condition and plumbing facilities is considered one measure of housing quality. It takes account of the physical characteristics of the unit—the structural condition and the presence of basic plumbing facilities (water supply, toilet facilities, and bathing facilities). Although such factors as light, ventilation, and neighborhood also reflect quality, particularly in urban areas, it is not feasible to measure them in a large scale census enumeration. These elements, however, often are closely associated with condition and plumbing facilities.<sup>4</sup>

<sup>2</sup>New York and Chicago are among the most notable exceptions.

<sup>3</sup>Instituted under the 1961 Housing Act, the 221(d)(3) program has only begun to achieve its housing construction goals in the last few years.

<sup>4</sup>Frank S. Kristof, *Urban Housing Needs Through the 1980's*, Research Report No. 10, National Commission on Urban Problems, 1968.

The limited role of the large scale census enumeration stems not only from its general focus that omits specific details. Major difficulties include these:

The term structural condition is confusing. It does not refer to the basic fabric of the building. Rather it looks to "visible defects \* \* \* associated with weather tightness, extent of disrepair, hazards to physical safety of the occupants, and inadequate or makeshift construction."

The Census item of *pipd hot water* is misleading because the plumbing facilities are not necessary in the dwelling unit. The proper item is *pipd hot water inside the structure*. It may not be in the dwelling unit. And even there, the hot water may be supplied "only at certain times of the day, week, or year."

Omitted items of *light, ventilation, and neighborhood* are crucial to housing quality. Dual egress, in some parts of the country installed heating facilities, size of rooms and dwelling units, also crucial, are left out.

And the census belief in a correlation between those quality items enumerated and those not enumerated is questionable.

The Commission warns against the common tendency to read into the census housing data more than is there. Visible condition of building (which the census classifies as *sound, deteriorating, and dilapidated*) and plumbing facilities in combination are indeed, as the Census puts it, "one measure of housing quality," but only one—and a crude one at that. Quite surely it is on the conservative side—that is, it results in a lower estimate of the volume of substandard housing than most reasonable persons would arrive at on the basis of careful local studies. This seems doubly likely for the housing in older, large, central cities and industrial suburbs of metropolitan areas. The census definition amounts to "a nearly weathertight box with pipes in it," and this notion of quality, unfortunately, is hopelessly inadequate.

In short, the hard job of estimating and projecting housing needs is made all but impossible by the ridiculously inadequate data now at hand. Nearly everyone concerned with the subject has known and said this since the first census of housing was published in 1940, more than a quarter of a century ago. Yet these same critics of the data have gone ahead to use, revise, and manipulate these statistics (and often others that are worse) to produce elaborate and rickety structures of partial or misleading facts. Personal guesses and farfetched assumptions with little relation to the actual world around us clutter the housing and urban problems field.

The Commission in its examination of the central city ghettos in every section of the country saw this problem time and again. We saw housing within 1 mile of the White House and the Capitol of the United States which passed the District of Columbia housing code, but

which, in the judgment of those who saw it and smelled it, seemed hardly fit to live in. Is this standard housing?

And how is the data related to environment? Commission members saw rehabilitated housing in the blighted areas of St. Louis, New York City, Philadelphia, and Baltimore, among other cities, which met the local code standard. But the housing was surrounded by areas with inadequate city services for their special needs, areas which were deteriorating, or where freeways were scheduled to be built nearby. In many cases these circumstances will make it difficult for the rehabilitated housing to remain in good repair, as was the case in the early Baltimore experiments.

This Commission inspected one housing area where the noxious fumes from a giant chemical company plant nearby led the local housing expert to remark that if such a level of air pollution where found inside a factory the State would either require gas masks or shut down the plant. But human beings lived in that environment unprotected by local or State law because the company has carved out its separate municipal jurisdiction, thus avoiding both its fiscal and social responsibility to the larger community. Would even a \$50,000 house in that environment be "standard" or "decent" housing?

Is a unit correctly defined as standard under available data if the lot next door is littered with garbage; if police protection is limited; if street lights are not provided; if the sidewalk is buckled; if the street is full of potholes; if a liquor store is found on each corner; if sewers are nonexistent or inadequate; if the noise level is excessive; or if a rendering works is found in the block (as is true along the waterfront in the otherwise exclusive Georgetown area of Washington, D.C.)?

The Commission saw large sections of cities where, at the time of our examination, most of the dwellings did not rank very low on the census measures of housing quality but where, nevertheless, insurance companies would not write the usual forms of property insurance, banks and savings and loan associations would not lend on mortgages, and where the FHA would not insure. These areas, in the parlance of the trade, were "red-lined." People there were out of the ball game that has resulted in the improvement of many less needy areas in recent years.

The Commission saw such "standard" housing in virtually every one of the more than two dozen major cities it visited in every part of the United States. Caution is therefore indicated in discussing housing needs, lest the figures available are treated with a respect not due them.



Charting the housing course for urban America requires periodic, reasonably systematic housing inventories in at least all of the larger metropolitan areas of the country, and preferably in the smaller ones and in the independent cities as well. These need not all be full coverage jobs; sampling is possible and proper. They ought, however, to cover all of the items essential to a decent home and a suitable living environment, and they should be carried out uniformly for comparability from one metropolitan area to another. This would overcome many ambiguities and weaknesses of the limited national census enumeration. Also by compiling these local area inventories, much more realistic national estimates could be arrived at. The costs of such inventories would be small in proportion to the capital sums at stake and to their usefulness to housing entrepreneurs, officials, and to the concerned public.

Some 20 years ago the Committee on the Hygiene of Housing of the American Public Health Association developed a reasonably detailed method for measuring housing quality. Its title, "An Appraisal Method for Measuring the Quality of Housing," may have been unfortunate in that *appraisal* implies to some people an estimating of dollar value. Be that as it may, the method was carefully and intelligently put together, and deserves equally careful review by those who may have responsibility for plugging the many gaps that now exist in available and useful inventory data on urban housing in this country.

The Commission in this discussion of available facts on urban housing emphatically is *not* saying or implying two things:

It is *not* saying that more data will decide for us what is acceptable housing and what is substandard. All standards, whether in housing or automobiles, require human judgment. "Scientific standards," if anyone wishes to use the term, are simply those based on carefully determined facts rather than on rule-of-thumb or mere opinion. Such facts are indispensable to sound judgment, but they are not a substitute for it.

*Neither* is the Commission suggesting that no changes be made in housing policy and programs until more adequate data are at hand. Quite the opposite. The need for more decent housing in American cities is so great, so pressing, and so obvious that much larger and more vigorous efforts to meet it are urgently needed. These efforts can and should be started at once, as the Housing Act of 1968 contemplates, using existing tools and programs, plus such modifications and additions as experience to date justifies. If the refinement of housing facts is undertaken promptly, the results would soon be

available to light the way for even more effective action toward "a decent home and a suitable living environment for every American family."

#### AN OVERVIEW OF HOUSING NEEDS AND CHANGES

In estimating overall housing needs in the United States the Commission drew upon the work of its principal consultants on this subject, Mr. Frank S. Kristof, Nathaniel Keith, and George C. Schermer; on published materials including testimony before congressional committees; on a special study of housing conditions in the poverty districts of 101 metropolitan areas made by the Bureau of Census in cooperation with the Commission; and on staff studies of large poor families and of housing lost by demolition.<sup>5</sup> Mr. Kristoff analyzed housing needs in 1950 and 1960 and changes in the housing inventory during the 1950's and from 1960 to 1966. From this analysis he projected changes and needs by decades to 1990.

The highlights and analysis of Mr. Kristof's report, based almost entirely on census materials, are given below.

##### 1. *The Nationwide Scene*

From 1950 through 1959 housing needs for the entire country, according to the author's definition of needs, decreased from 20.5 million units to 15.4 million. This substantial change arose from a decline in the number of substandard units from 17.0 to 11.4 million, and an increase of .8 million vacancies in standard units. Crowded households in standard units (those with more than one person per room) actually increased from 2.7 million to 3.9 million units. (See table 1.)

Note that "substandard units to be removed" includes all units classified by the census as "dilapidated or lacking essential plumbing facilities." Left out of the substandard category are some 4.6 million units that in 1960 had plumbing facilities but were classified by the census as deteriorating (the intermediate category between *sound* and *dilapidated*); i.e., units presumably ripe for rehabilitation. Excluding them further understates the current needs total, as shown by the fact that rehabilitation (under the heading "Upgrading in existing inventory," table 1, line 23) was recognized as an item that reduced total housing needs by 4 million units in the 1950's.

<sup>5</sup> *Ibid.* See also, Nathaniel Keith, *Housing America's Low- and Moderate-Income Families*, Research Report No. 7; George Schermer, *More Than Shelter*, Research Report No. 8; Allen D. Manvel, *Housing Conditions in Urban Poverty Areas*, Research Report No. 9; Walter Smart, Walter Rybeck and Howard E. Shuman, *The Large Poor Family—A Housing Gap*, Research Report No. 4; and unpublished staff study by Paul H. Douglas, Ellen Kelly, and William F. Glacken on housing demolitions.



TABLE 1.—ESTIMATES OF COMPONENTS OF INVENTORY CHANGE AND CHANGES IN HOUSING NEEDS FOR THE UNITED STATES: 1960-89

(In thousands of units)

Subject	Actual			
	Estimated		Estimated	
	1950-59	1960-69	1970-79	1980-89
	A	B	C	D
1. Total housing inventory at beginning of the decade.....	46,137	58,468	69,468	86,618
COMPONENTS OF INVENTORY CHANGE				
2. Units added to housing inventory.....	16,861	16,900	21,250	23,425
3. New construction.....	15,003	15,300	19,500	21,525
4. Units added by conversion.....	807	600	650	700
5. Units added through other sources.....	1,050	1,000	1,100	1,200
6. Units lost from housing inventory.....	-4,530	-5,900	-7,100	-8,300
7. Units removed through demolition.....	-1,933	-2,700	-3,300	-4,000
8. Units lost through mergers.....	-815	-700	-650	-600
9. Units lost through other means.....	-1,783	-2,500	-3,150	-3,700
10. Net change in housing inventory..... which was accounted for by:	12,331	11,000	14,150	15,125
11. Increase in number of households.....	9,986	9,400	12,300	13,285
12. Change in vacancies.....	2,345	1,600	1,850	1,840
13. Available for sale or rent.....	1,411	300	550	550
14. Other vacancies.....	933	1,300	1,300	1,290
HOUSING NEEDS				
15. Housing needs at beginning of decade.....	20,530	15,364	10,787	7,706
16. Substandard units to be removed.....	17,007	11,407	6,883	3,837
17. Crowded households in standard units.....	2,682	3,957	3,904	3,869
18. Increase in standard available vacancies.....	841			
19. Changes in housing need during decade.....	-5,166	-4,577	-3,081	-2,021
20. Change in number of substandard units.....	-5,600	-4,524	-3,046	-1,743
21. Demolitions, mergers, other losses.....	-3,446	-3,885	-3,380	-2,715
22. Substandard units added during decade.....	1,886	1,551	1,508	1,382
23. Upgrading in existing inventory.....	-4,040	-2,190	-1,174	-410
24. Change in crowding in standard units.....	1,275	-53	-35	-278
25. Change in standard available vacancies.....	-841			
26. Housing need at end of decade.....	15,364	10,787	7,706	5,685
27. Substandard units to be removed.....	11,407	6,883	3,837	2,094
28. Crowded households in standard units.....	3,957	3,904	3,869	3,591
29. Increase in standard available vacancies.....				

Source: Fraak S. Kristof, "Urban Housing Needs Through the 1980's: An Analysis and Projection," National Commission on Urban Problems, Research Rept. 19, Washington, 1968, p. 6.

Also, crowded households in standard units are counted in total needs; crowded households in substandard units are not. This avoids double counting, once for demolition, once for overcrowding. If one family is simply in cramped quarters, this is correct. But it is not correct if overcrowding comes from two or more families doubling up because of poverty, discrimination, or housing shortage; the demolition of such a unit would lead to a need for two or more units. Which of the 2.2 million overcrowded substandard units in 1960 were in which category? The census data, again, are inadequate for making this distinction, so the figures err on the low side.

Strangely, although overcrowding is much more prevalent in substandard than in standard housing, during the 1950's the number of overcrowded, *standard* units *increased* by almost 1.3 million or 47.5 percent, while over the same period overcrowding in *substandard* housing *decreased* by 1.9 million units or 46.8 percent.

This could reflect a preference among some middle- and lower middle-income families, for gadgets over living space. It could be that easy terms induced many young couples to purchase houses that were really beyond their means, so as their families and expenses grew, they had to stay in houses they had outgrown. It may also be due to shifts in some substandard housing to the standard category by way of the removal only of "visible defects." This could account for some *decrease* in overcrowded substandard units.

Note also that our need figures require some vacancies: the criterion is 5 percent for owner-occupied houses—"for-sale vacancies." The relatively high level of housing production during the 1950's loosened up the supply as compared with the general shortage in 1950. Thus, according to the data, the housing needs were reduced by some 0.8 million units.

In short, if one puts much credence in the census data as measures or, at least, as indexes

of housing quality, the nationwide picture of housing changes during the 1950's is a rosy one. The general housing shortage was wiped out, and the number of "substandard units to be removed" was reduced by almost one-third (32.9 percent). Almost the only disturbing notes were the substantial increase in overcrowding in standard units, and the 1.9 million additional units falling into the substandard category. Of course, one also might have some qualms about the 3.4 million units that were demolished or merged. Surely most of these were lived in by lower income families. How did they make out? (Demolition and relocation, however, are taken up later in this report.)

## 2. More Roses in the Future?

Before considering the projections of housing needs for the three decades beyond 1960, what characteristics of housing in the 1950's accounted for most of what happened? Are they likely to continue to operate and with similar results?

A major assumption behind the analysis done for the Commission was that the primary force was a high volume of housebuilding in proportion to household formation. The ratio was 1.5 to 1; i.e., three housing units were built for each two additional households formed. During the first years of the 1960's this ratio was about 1.7 to 1, but high mortgage interest rates and rising construction costs in recent years have cut it back. The projections assume that it will be about 1.5 to 1 for the 1960's and, furthermore, that this ratio can be maintained without significant change during the 1970's and 1980's. If so, by 1990 the aggregate national housing need would be only 5.7 million units—a little more than one-third of the 1960 figure. Substandard houses to be removed in 1990 would be only 2.1 million units—less than one-fifth of the 1960 total.

In trying to judge these projections one ought to look at what lay behind the 1.5-to-1 ratio of the 1950's. Direct building for the poor and near poor was a very minor factor. The overwhelming proportion of the building was by private agencies for buyers and renters further up the income scale. This building volume during the first years of the 1950's was spurred by the substantial remainder of the post-World War II housing shortage. Since then relatively high employment and rising incomes have played a major part. They fueled not only the market for new housing but also were largely responsible for the rehabilitation that corrected the "visible defects" and then raised over 4 million from the substandard to the standard category. Here too, was a war-induced backlog of work roughly similar to the postwar housing shortage.

Two other factors, however, should not be overlooked. The volume of demolition reached unprecedented proportions—from an estimated average of 11 percent of new housing starts in earlier decades to 25 percent of new starts during the 1950's. Also, easier credit terms on mortgage loans for house purchases probably were a major factor. Lower downpayments with longer amortization periods reduced monthly payments, which was called repeatedly to the prospective buyer's attention, but increased his total outlay over the years of purchase, which no one bothered to impress on him. This easing process would seem to be near its limits, short of comparable *new* stimulants to home purchases.

Obviously to maintain the 1.5-to-1 ratio very long would require a substantial removal of housing units from the then existing supply—the standing stock so-called. Otherwise general overbuilding would result; vacancies would rise substantially and the volume of production would be cut back. In judging projections of housing production, therefore, estimates of removals or losses from the inventory are crucial. Table 1 shows units lost (line 6) at the following percentages of units added (line 2) by decades:

	Percent
1950's -----	26.9
1960's -----	34.9
1970's -----	33.4
1980's -----	35.4

These are very substantial proportions, particularly those after 1960. Probably few persons who fly over metropolitan areas and see the vast extent of new housing at the peripheries of central cities and on beyond suburbia would believe that for each three of these new houses one other unit has been removed by demolition, merger, or through "other means." Unfortunately the condition of the data on removals is as unsatisfactory as those on housing quality. Without trying to go into much detail on them, one item should be noted.

Line 9 of table 1, "Units lost through other means"—i.e., other than demolition and merger (the combining of two or more housing units into one)—is a very substantial proportion of the crucially important total of *units lost* or, as sometimes called, *removals* from the housing inventory (line 6). In all four decades *other means* ran a close second to demolitions, and accounted for the following proportions of the total lost or removed from the inventory:

	Percent
1950's -----	39.4
1960's -----	42.4
1970's -----	44.4
1980's -----	44.6

What are these *other means* that have taken so many housing units out of the inventory and may take so many millions more? The break-



down of this category is (1) fire, flood, and other disasters; (2) change of household units into group quarters as the census calls rooming or lodging house, dormitories, and similar structures; (3) change to nonhousing uses (e.g., shops, stores, manufacturing); (4) units closed to occupancy by public agencies or so far deteriorated as to be "unfit for human habitation" (e.g., abandoned buildings in rural areas of declining population and vandalized houses in some urban slum districts); and (5) "units moved from the site."

For none of these sub-categories are there firm or reasonably satisfactory figures, so this treatment of units moved is strange. Losses by "moved from site" have been estimated as 540,637 units, 1950-59, or slightly more than 30 percent of total losses or removals by other means than demolition and merger. To offset this "loss" by adding the same units as "moved to the site" is simply figure-juggling. In a *national* inventory a housing unit moved from one lot to another is neither lost nor added. It makes no difference whether the move is to an adjacent lot or to another state. This treatment of moves, however, does have two effects on the estimates prepared for the Commission: (1) it increases somewhat the "units added" figure and, therefore, the ratio of units added to households formed; and (2) it increases the estimated number of units lost, which, as was pointed out above, has to be high if anything like the 1.5 to 1 ratio is to be maintained. Fortunately, the figure for units moved during the 1950's was not large enough to distort greatly the numbers given for units lost and added to the inventory, but it was not negligible. It added 13.6 percent to the units lost and 3.3 percent to the units added. No figures are available for moves in the three decades after 1960, but as noted above, the estimates for units lost through other means, of which moves are a part, are substantially higher, both in numbers and relatively, than the figures for the 1950's.

The expectation that the 1.5 to 1 ratio can be maintained is only one of several other equally plausible assumptions. It relies essentially on the facts that although from 1900 to 1950 the ratio apparently (based on skimpy data) was about 1 to 1, since 1950 the 1.5 to 1 ratio has been maintained and for some periods exceeded; private and public policies have been developed and applied to achieve a high level of employment and rising personal income with only minor dips or recessions; and similar programs and practices have been followed in housing finance and construction. Now that we have learned how to do it, therefore, what good reason is there for thinking that the 1.5 to 1 ratio

would not be maintained? Table 1, based on that probability, shows the estimates of the consequences of continuing this high level of housing production. But the Commission has serious doubts on this score. At crucial points, basic data is alarmingly weak, and subject to wide variations in interpretation. We believe the influence during the immediate past of such housing market factors as shortages in both new building and modernization, accumulated during the depression of the 1930's and the war conditions of the 1940's, are underestimated. We doubt that the substantial effects of low down payments and longer amortization periods, although they may well be continued, can be matched by comparable *additional* stimulants in the years just ahead. Finally, we are not overly impressed by the mere fact of 18 years of 1.5 to 1. After all, relatively short term social trends that have endured much longer than 16 or 18 years have been sharply reversed—including the new housing to household formation ratios before 1950.

Although the Commission has doubts about the projections of housing production, and the even more optimistic expectations of reductions in substandard housing, the Commission is making them available and putting down this brief critique of them. They illustrate how the hard job of estimating and projecting housing needs is made all but impossible by the ridiculously inadequate data now at hand. And in many respects, these are the best estimates available.

#### *Many paths lead to similar conclusions*

Despite the inadequacies of the data about housing needs, those of the Census, or the various studies made or used by the Commission, it is interesting that a number of careful students of housing matters have arrived at very close agreement about what to do about meeting the Nation's housing problems.

The Commission's consultant arrived at a proposed 10-year program of about 600,000 units per year under older forms of public assistance in housing as well as the 1 percent interest rate and home ownership assistance provisions of the Act of 1968 (which were under consideration by the Congress when Mr. Kristof made his report to the Commission). Of this total, approximately 400,000 units would be new building; 100,000 units rehabilitation; and 100,000 would be "low-rent public housing leasing"—i.e. existing units leased by housing authorities and made available to low income families at rents within their means. Such a program, according to estimates, would double the rate of housing improvement shown in table 1 for the 1970's.



The Commission feels with some confidence that this estimate of its effect on the rate of improvement is correct—maybe even understated. Properly spelled out and administered, moreover, it would amount to a direct attack on the worst housing conditions in the country including those in urban and metropolitan areas.

Some reassurance on the need for such a program is given in the testimony earlier in 1968 before the Subcommittee on Housing and Urban Affairs of the Senate Committee on Banking and Currency by Secretary Robert C. Weaver and other representatives of HUD, and by Paul H. Douglas, Chairman of this Commission, who was asked to testify as an individual about 2 months before the Kristof study was available. Analyzing conditions in somewhat different ways and coming up with somewhat differing mixes of the components of the programs, they agree on at least a 10-year program of 500,000 to 600,000 units per year to be provided directly for lower income families. Of course it should be remembered that both Secretary Weaver and Senator Douglas were working with basically the same weak, inadequate data as were the Commission's staff and consultants. Nevertheless the similarity of the results, at least in order of magnitude, would indicate that their conclusions are a reasonable basis for action.

Without analyzing the three proposals here, it is noteworthy that those responsible for them were aware that the plans raise some serious questions that may be put broadly in this way: In the 1970's, the increase in number of households will be high. Yet the birth and fertility rates in this country have been going down since 1957 and now are very substantially reduced. The absolute number of births began to go down in 1962. It is quite possible that in the 1980's the number of new households may decline. If a substantial program of assisted housing for lower income families should tail off at about the same time, would the country be faced with serious over-capacity in building material production and unemployment in the building and allied trades?

Stretching out the increased construction program would cushion any such drop. In estimating the severity of a drop-off at the end of any program representing a substantial average annual increase over a period of years, it should not be forgotten that the annual volume at the end of the period of the program will be substantially more than the average over the period. In other words, the average increase will not be reached in the first years of the period and, therefore, will have to be exceeded

later if the annual average over the period is to be attained.

In short, in trying to deal effectively with accumulated housing needs of lower income families in the ways suggested, are we storing up serious trouble for the not-distant future? Clearly this is a complex question. Much of the answer would depend on what kinds of housing units would be built and by whom, as well as on what might be happening around 1980 or thereafter in other parts of the construction industry. The Commission, while urging detailed and careful study of the question, sees one fact in its own and other studies of housing needs that is definitely reassuring on this point. Housing needs estimated previously on the almost-weather-tight-box-with-pipes conception of standard housing *grossly understates needs* as implied by the national goal of a decent home and a suitable living environment. And this is true whether the latter phrase is spelled out in some detail by housing specialists or by the heads of American families trying to better their own and their children's living conditions. Whether the degree of understatement is 50 percent, 100 percent, 200 percent or more, no one knows, now, but few would doubt that it is substantial. When, therefore, a program geared to deal with these rockbottom needs is well under way or substantially completed, the Commission feels certain that all people and agencies concerned with housing production, financing, maintenance and management will still have more than enough to do in moving ahead toward the goal of a decent home and a suitable living environment. And the Commission would point out that this phrase in the Congress's Declaration of National Housing Policy in the Housing Act of 1949 ends: "for every American family." The last quarter of the 20th Century hopefully would see the most affluent society in the history of mankind deciding that a decent home *should* include adequate facilities for storing, preparing, and serving food and cleaning up afterward, and that a "suitable environment" should include a place near the homes for children to play, other than streets and alleys.

Emphasizing again that total housing needs are actually much greater than the presently available data indicate, some crucial aspects of the national housing need currently may be summarized as follows:

There are about 7 million substandard dwelling units that need to be removed or replaced because they are so dilapidated or lack adequate plumbing.

There are another 4 million standard but overcrowded units. As we have not counted

deteriorating housing, and do not double count overcrowding in substandard units, it is fair to estimate a minimum total need of about 11 million units, or about three units out of every 20 in the Nation.

At the present levels of family income and at present rentals and mortgage rates, about a third of the families in the Nation cannot buy or rent decent housing at market rates by paying a reasonable proportion of their income for shelter (no more than 20 to 25 percent at most).<sup>6</sup>

### 3. In Metropolitan Areas

The preceding discussion has had to do with national totals and percentages of housing production, removal and need as well as changes in them. The Commission, however, is primarily concerned with urban housing and, within that category, particularly with housing in the larger urban concentrations of population—the metropolitan areas. Table 2 shows an estimate of the relative positions of the metropolitan, urban, and rural housing needs in terms of

<sup>6</sup> Many live in standard housing because they pay a disproportionate share of their income for shelter. Some may have inherited a home. Older people may have their homes paid for. Younger people may double up. As a consequence, the gap between one of six houses which are substandard or overcrowded, from the supply side, and the fact that slightly more than half the families can afford standard housing when looked at from the demand side, is considerably narrowed. Our judgment is that the 11-million figure, both because of demand and quality factors, underestimates our housing need.

For a good discussion of the problem in addition to the Kristof study, see Appendix A, pp. 1344-1349, Vol. 2, "Hearings on Urban Development Legislation of 1968," Subcommittee on Housing and Urban Affairs, Committee on Banking and Currency, United States Senate.

substandard housing (all dilapidated units and all other units lacking plumbing facilities) and overcrowded households (those living at densities of more than one person per room).

The following facts about substandard housing by location in 1960 (based entirely on Census data) stand out:

	Percent
National total.....	19
Rural.....	36
Urban.....	10
Metropolitan areas.....	11
Central cities <sup>1</sup> .....	11
Suburban.....	10

<sup>1</sup> Not the center or the core areas of the big cities, but all the central city of a standard metropolitan statistical area, such as Chicago is to its surrounding urban areas, or as Washington, D.C., is to its Maryland and Virginia suburbs.

Rural housing appears bad, comparatively, in large part because of plumbing differences as compared with urban housing.

The central city and suburban comparison with metropolitan areas seems incredible, but there are several explanations:

The stereotype of the wealthy suburb is misleading. Suburbs which fit the stereotype draw a disproportionate share of public attention. Industrial and low income suburbs are often not thought of as suburbs by many people.

The rural-urban fringes of metropolitan areas also have their share of poverty and substandard housing.

It overlooks the concentrated needs of housing in inner city areas.

The movement from central cities to suburbs has, for great numbers of people,

TABLE 2.—DISTRIBUTION OF HOUSING UNITS IN THE UNITED STATES BY URBAN-RURAL AND INSIDE-OUTSIDE SMSA'S BY QUALITY AND BY CROWDING, 1960  
[In thousands of units]

	United States	Inside SMSA'S			Outside SMSA'S	Urban	Rural
		Total	In central cities	Not in central cities			
Quality of all units:							
Total.....	58,318	36,378	19,617	16,761	21,940	40,757	17,561
Standard.....	47,727	32,535	17,406	15,130	15,192	36,490	11,238
Substandard.....	10,591	3,843	2,211	1,631	6,748	41,267	6,323
Percent.....	100	100	100	100	100	100	100
Standard.....	82	89	89	90	69	90	64
Substandard.....	18	11	11	10	31	10	36
Percent of all units.....	100	62	34	29	38	70	30
Percent of all substandard.....	100	36	21	15	64	40	60
Person per room:							
Total occupied units.....	53,024	34,000	18,506	15,494	19,024	38,320	14,704
1.00 or less.....	46,911	30,479	16,523	13,956	16,432	34,429	12,481
1.01 or more.....	6,113	3,521	1,983	1,538	2,592	3,891	2,223
Percent.....	100	100	100	100	100	100	100
1.00 or less.....	88	90	89	90	86	90	85
1.01 or more.....	12	10	11	10	14	10	15
Percent of all occupied units.....	100	64	35	29	36	72	28
Percent of all crowded (1.01 plus).....	100	58	32	25	42	64	36



TABLE 3.—COMPONENTS OF INVENTORY CHANGE AND CHANGES IN HOUSING NEEDS FOR THE UNITED STATES AND INSIDE CENTRAL CITIES OF STANDARD METROPOLITAN STATISTICAL AREAS, 1950-59 AND 1960-69 ESTIMATES

[In thousands of units]

	1950-59			1960-69 estimates		
	United States	Inside central cities	Inside central cities as a percent of United States	United States	Inside central cities	Inside central cities as a percent of United States
Beginning of decade:						
Total housing inventory.....	46,137	16,186	35.1	58,468	18,771	32.1
Occupied units.....	42,826	15,691	36.6	52,955	17,786	33.6
Persons in occupied units.....	145,595	49,808	34.2	174,650	53,600	30.6
Persons per occupied units.....	3.40	3.17		3.30	3.04	
COMPONENTS OF INVENTORY CHANGE						
Units added to housing inventory.....	16,861	4,061	24.1	16,900	3,921	23.2
New construction.....	15,003	3,420	22.8	15,300	3,420	22.4
Units added by conversion.....	807	367	45.5	600	240	40.0
Units added, other sources.....	1,050	274	26.1	1,000	261	26.1
Units lost from housing inventory.....	-4,530	-1,476	32.6	-5,900	-1,741	29.5
Units removed through demolition.....	-1,933	-757	39.2	-2,700	-893	33.1
Units lost through mergers.....	-815	-347	42.6	-700	-409	58.4
Units lost through other means.....	-1,783	-372	20.9	-2,500	-439	17.6
Net change in housing inventory which was accounted for by.....	12,331	2,585	21.0	11,000	2,180	19.8
Increase in number of households.....	9,986	2,095	21.0	9,400	1,974	21.0
Change in vacancies.....	2,345	490	20.9	1,600	206	12.9
Available for sale or rent.....	1,412	418	29.6	300	120	40.0
Other vacancies.....	933	72	7.7	1,300	86	6.6
HOUSING NEEDS						
Housing need at beginning of decade.....	20,530	4,658	22.7	15,364	3,279	21.3
Substandard unit to be removed.....	17,007	3,113	18.3	11,407	1,837	16.1
Crowded households in standard units.....	2,682	1,251	44.6	3,957	1,442	36.4
Increase in standard available vacancies.....	841	294	35.0			
Changes in housing need during decade.....	-5,166	-1,379	26.6	-4,577	-1,072	23.4
Change in number of substandard units.....	-5,600	-1,276	22.8	-4,524	-952	21.0
Demolitions, mergers, other losses.....	-3,446	-931	27.0	-3,885	-945	24.3
Substandard units added during decade.....	1,886	256	13.6	1,551	178	11.5
Upgrading in existing inventory.....	-4,040	-601	14.9	-2,190	-185	8.4
Change in crowding in standard units.....	1,275	191	15.0	-53	-120	
Change in standard available vacancies.....	-841	-294	35.0			
Housing need at end of decade.....	15,364	3,279	21.3	10,787	2,207	20.5
Substandard units to be removed.....	11,407	1,837	16.1	6,883	885	12.9
Crowded households in standard units.....	3,957	1,442	36.4	3,904	1,322	33.8
Increase in standard available vacancies.....						

Source: National Commission on Urban Problems, Research Report No. 10, "Urban Housing Needs Through the 1980's," by Frank S. Kristof.

been a move to better housing. But the Census does not count much of what they left as substandard. Again, the "weather-tight box with pipes" definition (light-years removed from the general concept of a decent home in a suitable environment) leads to these anomalous or ludicrous figures.

The definitions and data used in the study led to the finding that housing improved at a virtually identical rate in the central cities as in the Nation as a whole in the 1950's. So from that base, the projection also shows central city housing likely to improve over the next decade on a par with a general improvement.

In their totality, these metropolitan housing needs estimates, like those for the Nation as a whole, project a more favorable picture than

the Commission is led to accept. The overly optimistic view does not conform with much of the Commission's research and observation. The Commission is further strengthened in its skepticism because the author of these projections himself lists significant qualifications about the metropolitan housing situation:

First, the criteria of housing quality that were used were blind to the "suitable living environment" aspects of housing. This is a weakness that becomes more serious as the rising incomes and expectations of more and more people combine to make neighborhood or environmental conditions an increasingly important part of their ideas about good housing.

Second, "the housing progress of the past 18 years has been unevenly distributed. Although the housing status of even the lowest income



groups has been improved since 1950, the greatest gains have been made in the middle and upper income brackets. \* \* \* Thus the gap in the housing status of the poverty group of the Nation—roughly one-fifth of all households—and the more affluent four-fifths has been widening. \* \* \*

Third, "an acceleration of the Nation's rate of progress can be accomplished only by focusing on the households of greatest need in the Nation—the poverty and near-poverty groups among whom are concentrated the greatest proportion of housing-deficit families."

## POVERTY AND HOUSING

This section draws chiefly on a special Commission study of poverty areas in the 101 metropolitan areas with 1960 population of over 25,000 each.<sup>7</sup> The poverty areas are those marked out by the Bureau of the Census for assembling information for various antipoverty programs. Essentially, poverty areas are made up of those census tracts in the lowest quarter of tracts in each SMSA when all tracts were ranked according to a composite "poverty index" that included not only the percentage of families with incomes under \$3,000 according to the 1960 census, but also percentages of four other, often associated characteristics of families in such areas: (1) children under 18 not living with both parents; (2) males over 25 with less than 8 years of schooling; (3) unskilled males over 14 in the employed labor force; and (4) substandard housing units or, as they are now sometimes referred to, units "not meeting specified criteria."

Surely few people would have to be convinced that poverty and poor housing are closely linked. A few facts about their relationships, however, are worth noting as a basis for developing a sound national housing strategy.

From 1960 data, \$3,000 may be taken as the boundary between the poor and the somewhat better off—what is called the poverty line. Substandard housing is again defined as all dilapidated units plus all deteriorating and sound units lacking one or more essential plumbing facilities. Perhaps the most pertinent facts about poverty and housing are the following:

1. For the whole United States, 19 percent of all housing units were substandard in 1960. Of the units occupied by poor households, 36 percent were substandard.

2. Of all owner-occupied units in the United States, 11 percent were substandard.

### *Specific housing needs*

Even if the previous estimates and projections given for the Nation and for metropolitan areas could be taken at face value, we deal in the following sections with certain specific housing needs that make the current situation anything but rosy. We will take up in order certain demonstrated relations between poverty and housing, some racial aspects of housing needs, the special problems of large poor families, the widely ignored matter of demolitions of housing (and the accompanying dislocation of families), and the relocation housing problem.

Of those whose owners were poor, 30 percent were substandard.

3. Of all renter-occupied units in the United States, 23 percent were substandard. Of those whose renters were poor, 42 percent were substandard.

4. For all SMSA's, 11 percent of all housing units were substandard in 1960. Of those units occupied by poor families, 23 percent were substandard.

5. Of all owner-occupied units in SMSA's, 5 percent were substandard; of those whose owners were poor, 14 percent were substandard.

6. Of all renter-occupied units in SMSA's, 16 percent were substandard; of those whose renters were poor, 30 percent were substandard.

Thus in these six key comparisons, the proportions of poor households in substandard housing is about twice the proportion for all households—poor and not poor—in four cases, and almost 3 times in 2 of the comparisons.

Others may be puzzled at first, as was the Commission, that the percentage of the poor in substandard housing do not seem especially low. Only in item No. 3—all poor renters in the United States—did the proportion approach one-half. But, as stressed earlier, the figures are based on a primitive definition of substandard housing; they do not refer to merely poor housing, but only to the rockbottom stratum of utterly unfit housing.

Further, the proportions seem impossible to those who hold the common belief that families usually pay 20 to 25 percent of their income for housing. Many estimates of housing needs are based on this rule of thumb, but it does not hold true. The widespread gap in rent-income ratios by income class is dramatized by the following exceptionally useful information from Mr. Kristof's housing needs study for the Commission:<sup>8</sup>

<sup>7</sup> Allen D. Manvel, *Housing Conditions in Urban Poverty Areas*, Research Report No. 9, National Commission on Urban Problems, 1963.

<sup>8</sup> Kristof, *op. cit.*, pp. 61-63.

Of renters with incomes under \$2,000 in 1960—

90 percent pay 25 percent or more of income for rent, and of these—

13 percent pay 25 to 35 percent of income for rent.

77 percent pay 35 percent or more of income for rent.

Of renters with incomes between \$2,000 and \$3,000 in 1960—

63 percent pay 25 percent or more of income for rent, and of these—

31 percent pay 25 to 35 percent of income for rent.

32 percent pay 35 percent or more of income for rent.

Of renters with incomes between \$6,000 and \$7,000 in 1960—

6 percent pay 25 percent or more for rent.

1 percent pay 35 percent or more for rent.

Of renters with incomes over \$8,000 in 1960—

1 percent pay 25 to 35 percent of income for rent.

0.5 percent pay 35 percent or more of income for rent.

Clearly, if many poor households escape rock-bottom bad housing, there is little comfort to be drawn from these facts, indicating as they do that such escape can only mean cruelly curtailed expenditures for other basic necessities such as food, clothing or medical care. (While no comparable figures are available for poor owner-occupiers, presumably those who keep out of substandard quarters also do so at the expense of other necessities.)

TABLE 4.—DISTRIBUTION OF NONWHITE HOUSEHOLDS BY TENURE, QUALITY OF HOUSING, AND FAMILY INCOME INSIDE SMSA'S, FOR THE UNITED STATES, 1960

[In thousands of households]

Family income	Substandard units				
	All units		Percent of income category		
	Number	Percent	Number	Percent	
Owner households:					
Total.....	1,224	100	218	100	18
Less than \$2,000.....	252	21	95	44	38
\$2,000 to \$2,999.....	126	10	35	16	28
\$3,000 or more.....	846	69	88	40	10
Owner, poverty households.....	378	33	130	60	34
Renter households:					
Total.....	2,262	100	765	100	34
Less than \$2,000.....	760	34	360	47	47
\$2,000 to \$2,999.....	374	17	139	18	37
\$3,000 or more.....	1,128	50	266	35	24
Renter, poverty households.....	1,134	50	499	65	44

Source: Kristof, op. cit., p. 36.

What of the districts in metropolitan areas that more or less casual observers and many others have thought contained most of the poor and very poor, as well as most of the bad housing and pathological social conditions? Whether they are labeled slums, badly blighted districts, or whatever, how much of the worst housing is concentrated in them? What are the characteristics of such districts that should influence any

attempts to better the housing of their residents? The special census study of housing in poverty areas gives the best perspective on these questions that has been possible to date. What does it show?

First, several sharp contrasts between the poverty areas of the central cities and those of the suburbs should be noted. In the poverty areas of these central cities, the housing density was 100 times as great as in the poverty areas of the suburbs—3,071 units per square mile as against 30 units per square mile. Although the central city average undoubtedly is increased markedly by the great bulk and untypically high densities of New York City, these figures do mirror sharply two of the principal and sharply contrasting elements in poverty areas.

In the central cities congestion is the great evil. It makes for acute shortages of open and recreational space, continual crowding in the use of transit and other public facilities, high land prices, and the sense of confinement or containment that gives some support to the label of "ghettos" that has come to be applied to them. Note that in the central cities the average density in nonpoverty areas (1,874) is only 61 percent of that in poverty areas (3,071).

Suburban poverty districts are characterized by scatteration, small and often unsubstantial structures, and a thinness of development that, coupled with the low incomes of the residents, works strongly against adequate community facilities of all kinds—schools, stores, mass transit, churches, etc. Note also that the density figures of nonpoverty areas show a much smaller spread; central cities, 1,874; suburbs 90; a ratio of about 20:1. (And the figure for the suburbs is surely low for more or less typical suburban development—watered down by the substandard areas of the rural-urban fringes in many metropolitan areas.)

In the central city poverty areas, 68 percent of the units were rented, and 24.4 percent owner-occupied. Outside the central city, the figures were 53.1 percent owner-occupied, and 36.5 percent rented. The remainder were vacant units.

Of the total number of housing units in the central cities, 33.3 percent were in the poverty areas. The corresponding portion for the suburbs was 10.2 percent.

Second, many of the facts about housing in the poverty areas speak for themselves. Although a third of the housing units in the central cities are found in the poverty areas on less than one-quarter of the land area (23.2 percent), these poverty areas contained:

Four out of five of all housing units occupied by nonwhites in these central cities;

Three out of four of the substandard units in these central cities;



Nine out of 10 of the substandard units occupied by nonwhites in these central cities;

Over half of the overcrowded units in these central cities;

Five out of six of the overcrowded units occupied by nonwhites in these central cities;

Four out of 10 of all housing structures built before 1940 in these central cities, or those which were almost a third of a century old or older; and

Five out of six of all the structures built before 1940 which were lived in by nonwhites in these central cities (table 4).

These facts are clear evidence of the inadequacy of the figures which show that only 10 or 11 percent of the urban areas, cities, and suburbs of the SMSA's have substandard or overcrowded housing.

These facts show how concentrated the problems really are.

They give some understanding of the outrage of many poverty area residents.

They suggest some of the reasons for (but do not justify) the complacency, indifference, or hostility of many suburban residents to the other man's indignity.

Does bad housing have nothing to do with anger, alienation, frustration, and riots?

Does good housing in the urban ring far from the overcrowding bring to some a certain contentment, misunderstanding, or even at times an intemperate reaction to the just grievances of innercity residents?

This evidence helps to explain, even if it does not excuse, why one man condones a riot while the other calls for "law and order."

Finally, a summary table from an unpublished sample study by the census in 1965 yields three sets of facts that are pertinent here. The sample was 80,000 households in the same 101 metropolitan areas with 1960 populations of 250,000 or more.<sup>9</sup>

(1) For these sizable metropolitan areas as a group, 28.1 percent of all nonwhite (predominantly Negro) households were below the poverty line; 57.6 percent of all nonwhite households lived in poverty areas; and of those in poverty areas 35 percent

were poor. Of all white households in these same SMSA's, 7.9 percent were below the poverty line; 11 percent lived in poverty areas; and of those in poverty areas, 17.3 percent were poor. These percentages, of course, bear out two conditions indicated above: (a) The incidence of poverty is much greater among urban nonwhites than among whites, and (b) in metropolitan areas poor nonwhites are much more concentrated, geographically in their patterns of residence, than are whites below the poverty line.

(2) Of all poor families in these SMSA's, 67.6 percent were white and 32.3 percent were nonwhite. Of all families in poverty areas in these SMSA's, 58.9 percent were white and 41.1 percent were nonwhite. The more than 2:1 ratio of white to nonwhites below the poverty line, despite the higher incidence of poverty among nonwhites, is explained, of course, by the rather small proportion of nonwhites in the total population of these areas—11.8 percent, slightly higher than the proportion of nonwhites in the total U.S. population in 1960. The 67.6:32.2 ratio for these 101 SMSA's is similar to the 70:30 ratio often given for the country as a whole.

(3) Rather surprisingly, in these 101 areas, the nonwhite poor—in all parts of the SMSA's, in nonpoverty areas, and in poverty areas—had slightly higher median incomes than whites below the poverty line. The percentages: all parts of SMSA's: nonwhite \$2,115, white \$1,701; nonpoverty areas: nonwhite \$2,268, white \$1,650; poverty areas: nonwhite \$2,053 and white \$1,859. This probably can be explained by the fact that some 25 percent of white families below the poverty line are two-person families whose head is 65 years or older. These are the "aged poor," many of them unemployed or not in the labor force. The corresponding figure for nonwhite poor families is only 8 percent.<sup>10</sup>

<sup>9</sup> *U.S. Statistical Abstract*, 1967, Table 485, p. 340.

<sup>10</sup> *Social and Economic Conditions of Negroes in the U.S.*, October 1967, p. 23.

## RACIAL ASPECTS OF HOUSING

Urban Negroes, as a group, are notably poor when compared with whites. Undoubtedly Negro poverty accounts for much of the bad quality of Negro housing. Quite as surely, however, the Negro's difficulties in obtaining decent housing for himself and his family are also the product of racial discrimination on the part of many whites.

In assessing the housing conditions of urban Negroes, is it possible to separate the consequences of Negro poverty from the consequence of racial discrimination? Discrimination alone defies simple analysis, stemming as it does from such a mix of ignorance and fears of whites, and historical practices and attitudes. Similarly, the housing conditions of any sizable social



group clearly are the end result of multiple factors or forces. For example, when we separate out family income and race, housing opportunities also are affected by recency and source of immigration, educational level, job skills, value systems of previous group affiliation, physical and mental health, and other personal and social conditions which influence the degree and rate at which either black or white people get their feet on the ground in urban localities. The varying degrees and rates of adjustment or socialization, in turn, are almost certain to be reflected in the quality of people's housing, whatever their color. For many of these conditioning influences we have no measures whatever; for some we have inadequate and often misleading measures or indices. So the more specific one attempts to be on such matters, the more risky are dogmatic claims.

With this warning, the Commission presents some crude data that indicate answers to certain questions about the linkage between poor housing and racial discrimination:

(1) In metropolitan areas in 1960, 23.5 percent of all poverty households, white and nonwhite, lived in substandard housing (by the definition of substandard we are forced to use).

(2) In the same areas in the same year, 18.9 percent of white households below the poverty line lived in substandard housing.

(3) In the same areas in the same year, 41.6 percent on nonwhite households below the poverty line lived in substandard housing.

(4) In other words, within the poverty category, the proportion of Negroes and other nonwhite in substandard housing was more than twice the proportion among whites. Race, therefore, seems to be a significant factor in bad housing.

(5) Although of much less significance because of the spread of the income group, the proportions of those above the poverty line but in substandard housing in metropolitan areas may signify little: all households, white and nonwhite—5.4 percent; white—4.4 percent; nonwhite—17.9 percent.

(6) Of all substandard units in metropolitan areas, 69.4 percent were lived in by whites; 30.6 percent were

lived in by nonwhites. Here again, as in the poverty figures, the substantially higher incidence of bad housing among nonwhites is more than offset by the almost 9 to 1 ratio of white to nonwhites in metropolitan populations. The task of replacing substandard units with decent homes is not limited to any one racial or ethnic group.

The conclusion that such striking differences are the consequence of racial discrimination against nonwhites is almost unavoidable. Without any doubt this end result—excessively bad housing—is the most significant aspect of the question. It is not, however, all of it.

In nearly all of the cities it visited, the Commission noted the low level of municipal housekeeping in low-income housing districts—dirty streets and rubbish-filled gutters; littered alleys; broken sidewalks; smashed curbs; the infrequent playgrounds, typically with broken equipment and covered with all manner of filth; signs of poor storm water drainage; broken windows and sashes in school buildings; etc. Almost always, to be sure, these evidences of deterioration in public facilities were matched or exceeded by poor upkeep and maintenance of housing and other private structures, with the exception of some church buildings and an occasional shop or industrial building. These conditions not only add to the unattractiveness of these districts but in extreme forms contribute to a genuinely unhealthy living environment—certainly not one that anyone in his right mind would call *suitable* for a decent home. Yet these characteristics of low-income neighborhoods lend effective, if specious, plausibility to the view of some that housing improvement in low-income areas is a hopeless undertaking.

The Commission cannot say with certainty whether such conditions are markedly worse in predominantly white or in nonwhite areas of similar economic status. Some observers, however, do allege that almost as soon as nonwhites move into a district in considerable numbers, both municipal departments and many landlords begin to cut back on essential upkeep and repairs. Where this occurs, it would constitute a type of "discrimination by neglect," which, of course, differs materially from the customary form that works to segregate nonwhites and curtail their freedom of housing choice.

Municipal officials often reply to charges of neglect that much of the condition complained about is primarily the fault of the residents of these districts. The best housekeeper may be helpless if the other members of a large family do not do their part. So why try, particularly when a city is in a continuous financial bind?

The Commission, rather than assessing relative blame, strongly suspects that the process resulting in these disgraceful conditions is circular; the actions or lack of action by one party

TABLE 5.—DISTRIBUTION OF NONWHITE HOUSEHOLDS BY TENURE, QUALITY OF HOUSING, AND FAMILY INCOME FOR THE UNITED STATES, 1960

(In thousands of households)

Family income	Substandard units				Percent of income category
	All units				
	Number	Percent	Number	Percent	
Owner households: Total.....	1,974	100	727	100	37
Less than \$2,000.....	641	32	410	56	64
\$2,000 to \$2,999.....	247	13	118	16	43
\$3,000 or more.....	1,085	55	199	27	18
Owner poverty households.....	888	45	528	72	59
Rental households: Total.....	3,171	100	1,537	100	43
Less than \$2,000.....	1,341	42	893	58	67
\$2,000 to \$2,999.....	526	17	265	17	50
\$3,000 or more.....	1,304	41	379	25	29
Renter poverty households.....	1,867	59	1,158	75	62

(whether tenant, landlord, or municipality) encourage similar neglect by the other two. Municipal officials should attempt to break this truly vicious circle, by undertaking vigorous

programs to improve low-income housing neighborhoods, giving many residents of these areas reason for hope and self-respecting environment for every American family

## THE LARGE POOR FAMILY—A MAJOR HOUSING GAP

A constant theme in the Commission's public hearings in some 20 cities was the great need for publicity assisted housing for the large poor family. While the need was often expressed, we found little factual evidence as to its magnitude.

The Commission, therefore, undertook a survey of this need in seven major cities.<sup>11</sup> They were chosen from each area of the country—Northeast, Southwest, and Midwest. A special Census-OEO study provided basic data matching income and family size.

In addition, the actual market rents for housing units containing three or more bedrooms were obtained from the local housing authorities, as an indication of which large families could not afford standard private housing. The inventory of public housing units, 221(d) (3) units, leased housing, and rent supplement units of three bedrooms or more that were available to these large families was obtained from the local FHLA offices or housing authorities in the cities. Finally, data were assembled on the additional large-family-size units which were planned for these cities.

The evidence showed that 103,000 large poor families in the seven cities could not (with one-quarter of their income devoted to housing) afford to rent standard housing units of adequate size at market rents.<sup>12</sup> The study found, however, that in the seven cities only 20,000 three or more bedroom units of publicly assisted housing of all kinds were available to these families.

The gap between the need and the units available was therefore 83,000 units, or more than 80 percent.

It was found that an additional 12,000 large units were planned. Even counting these, the gap was 71,000 units, or about 70 percent of the need.

This study plus testimony heard by the Commission<sup>13</sup> strongly suggests that one of the most desperate urban needs in the country is housing for the large poor family. Furthermore, this need is proportionately greater than the total number of poor families. If needs are measured in terms of the number of persons involved, obviously the needs of a large poor family of eight (two adults and six children) is four times that of a poor elderly couple for whom public housing or publicly assisted housing is provided.

The housing gap of 71,000 units for large poor families translates into housing deficiencies affecting more than a third of a million children (345,000). Furthermore, projecting this estimate of need to the 61 U.S. cities with populations of 200,000 or more, it was calculated conservatively that more than 2.5 million children (2,571,000) would be affected if the seven cities were reasonably typical.

A local housing agency or national authorities can make what appears to be a better record of units built at a smaller cost by building efficiency or one- or two-bedroom units, rather than the multibedroom units required by large families. A housing unit for two people may appear in a summary table or report as equal to a housing unit for six, eight, or 10 people. This explains in part the disproportionate emphasis on construction of housing for the elderly. From January 1960 through June 1968, 110,000 public housing units for the elderly were put under construction—43 percent of the 256,000 units being built. In fact, housing for the elderly has accounted for more than half of the public housing starts since 1965 and is now running at the rate of 57 percent. Whereas the elderly occupied only 14 percent of all public housing in 1960, the figure rose to 29 percent in 1965 and to 33 percent in 1967.

## DEMOLITIONS: HOUSING INVENTORY REDUCED AND FAMILIES DISLOCATED

The Federal Government through its various programs has caused an enormous number of private dwellings to be demolished. Local governments, in actions not tied to Federal pro-

grams, have added to this number. The five Government programs that accounted for the largest volumes of demolition have been: (1) Urban renewal; (2) highways; (3) public housing; (4) other action under the "equivalent elimination" provision which since 1937

<sup>11</sup> The cities were Washington, D.C., Philadelphia, New Orleans, St. Louis, Richmond, Denver, and San Francisco.

<sup>12</sup> For details, see *The Large Poor Family—A Housing Gap* by Walter Smart, Walter Rybeck, and Howard E. Shuman, Research Report No. 4, National Commission on Urban Problems, 1968.

<sup>13</sup> *Hearings Before the National Commission on Urban Problems*, vols. 1-5, 1968.



has required a unit of inferior housing to be eliminated either by rehabilitation or demolition for each unit of public housing built; and finally (5) demolitions by local order because of serious violations of building, fire, sanitation, and housing codes. In addition, of course, there have been demolitions by private owners and many instances where vandals have cannibalized abandoned buildings to obtain equipment and materials, or have simply wrecked them.

The statistics about demolitions are so poor that any estimate is subject to a considerable margin of error. We have, however, pieced together from a wide variety of sources the best approximation available and we believe that if it errs, it does so on the conservative side.

### *Countrywide totals*

#### *1. Urban renewal*

In a study on urban renewal made for this Commission, the author found the total number of demolitions on urban renewal sites was 404,000 dwelling units up to January 1, 1968.<sup>14</sup> A further staff study for this Commission from urban renewal files goes into the record for each of 72 cities and helps to give concrete local details, which will be discussed later.<sup>15</sup>

#### *2. Highways*

As freeways have been extended to connect the cities both with the fast-growing suburbs and with the 42,000-mile system of National Interstate Highways begun under the 1956 act, enormous numbers of homes in the paths of these highways have been demolished. Until recently neither the Federal Bureau of Roads nor many of the various State agencies showed much, if any, concern for those who were thus displaced. Owners were, of course, legally compensated for the taking over of the properties although, as we shall see, the compensation was in many cases grossly inadequate. But tenants in rented homes or apartments who were displaced have up until now received no compensation. Under the 1968 act, they are to receive moving expenses up to \$200 plus and extra \$100 as a dislocation allowance, plus \$400 more for home buyers.<sup>16</sup>

For years the Federal Bureau of Highways even neglected to collect any statistics on the number of demolitions inside urban area which its programs had caused.<sup>17</sup> Two alert Congress-

sional committees, subcommittees of the House Committee on Public Works and the Senate Committee on Governmental Operations, were finally successful in getting some rough estimates on these numbers. In 1964, the House subcommittee found that during the 3 preceding years (i.e., 1961, 1962, and 1963), an annual average of 25,564 "families and individuals"<sup>18</sup> had been displaced by highways.<sup>19</sup> In 1968, a Senate subcommittee of Governmental Operations found that the rate of demolitions for the preceding year because of highways and the firm estimates for the future indicated an average number of 49,000 in cities.<sup>20</sup> We thus have statistics for 4 of the 11 years during which the national interstate highway program has been in effect. Since the rate of demolitions in the 4 active years previous to 1961 was undoubtedly much below the average of 25,564 but was also much greater than this figure during the 4 years after 1963, it seems reasonably safe to assume an annual average of approximately 30,000. This would give a total in cities of around 330,000 for the 11-year period. It should be emphasized that these are urban displacements only.

#### *3. Demolitions on public housing sites*

The House subcommittee collected statistics on this group for the 3 years 1961-63 and found them to average 4,155 a year or a total of 12,455. During these 3 years a total of 76,900 public housing units were started. The demolitions therefore amounted to 16 percent of the new units.

The Commission staff<sup>21</sup> has computed that the total number of demolitions on the public housing sites up to 1949 was 40,400 in the 49 largest cities and 56,700 for the country as a whole. Since approximately 170,000 units were completed during this initial period, this meant that demolitions on housing sites came to just under 33 percent. An average rate might be around 25 percent. Applying this to the total of 707,000 units of public housing either built or under construction by 1968, would give an estimated total of demolitions on the sites of public housing projects of 177,000.

#### *4. Equivalent eliminations and demolitions*

Officials in the Department of Housing and Urban Development cooperated with the Commission to give our staff access to raw data in the files of the Department on the number of demolitions carried out prior to 1964 under the

<sup>14</sup> Robert Groberg, *Urban Renewal Program*, vol. 1, table G-1.

<sup>15</sup> Staff analysis by Mrs. Ellen Kelly.

<sup>16</sup> House Committee on Public Works, "Study of Compensation and Assistance for Persons Affected by Real Property Acquisitions in Federal and Federally-Assisted Programs," Dec. 20, 1964, p. 20.

<sup>17</sup> See the Bureau's reply from F. C. Turner under date of Sept. 13, 1967, to an inquiry from this Commission. "This Bureau has not attempted to compile demolition data. However, some of the individual State highway departments have such a recapitulation. Consequently, we must suggest that you contact the individual States for this data."

<sup>18</sup> By this is meant single person "families" as these are measured by population and public housing statistics.

<sup>19</sup> Hearings, House Public Works Committee, Dec. 20, 1964.

<sup>20</sup> Testimony before Senator Muskie's Subcommittee of the Committee on Governmental Operations, spring, 1968.

<sup>21</sup> Internal staff study by Mrs. Ellen Kelly and Mr. William Glacken.



congressional mandate to eliminate by demolition, effective closing, or repair a number of units equal to the number of public housing units built. In the instructions governing the collection of these statistics from the hundreds of cities involved, it was made clear that these statistics were *not* to include houses demolished on either urban renewal or public housing sites.<sup>22</sup> (Under the statutory requirement of "equivalent elimination," units on housing sites are counted.) Similarly, demolitions under the highway program were not counted. But for the years after 1949, no such separation was made.

The Commission staff study found that the total number of offsite demolitions reported prior to 1949 was 41,700. This was 42 percent of the total of all demolitions reported during this period for all causes other than urban renewal and highways. It was also approximately equal to 25 percent of the number of public housing units built during this early period. Applying the first percentage as well as the additional 137,000 demolitions reported from 1949 to 1963, we arrive at an estimate of 99,000 for the entire period from 1937 to 1963, i.e., 42 percent of a total of 235,000. If we use the 25 percent ratio to the number of public housing units built, this would come to 129,000 on the basis of the 516,000 units built up to that date.

There are no direct statistics on offsite demolitions during the period from 1964 to 1967. But applying the 25-percent ratio for the 116,000 units built during this period would amount to another 29,000 and give a combined total for offsite demolitions of from 128,000 to 158,000. It is probably not too far from the truth to take an average of these two or 143,000 as the best estimate.

### 5. Demolitions Under Local Codes

Additional units have been demolished under local health, fire, and housing codes. Since equivalent demolitions will be concentrated on units already listed by local authorities as seriously defective under the standards of these codes, a considerable volume of these demolitions are surely included in the four categories already described, but probably not all of them. On the whole, it seems better not to make any separate estimates for this group and simply to point out that any total we arrive at is probably a conservative understatement since it does not include them.

The estimated total number of housing units demolished in consequence of these major governmental programs comes to 1,054,000.

<sup>22</sup> In addition to this number we have private demolitions, the cannibalization of abandoned structures and vandalism, which annually destroy a large volume of building.

TABLE 6.—ESTIMATED HOUSING UNIT DEMOLITIONS FOR UNITED STATES, BY GOVERNMENTAL PROGRAMS, THROUGH 1967

Source of demolitions by governmental action	Period	Estimated demolitions (in thousands)
1. From urban renewal.....	1949-67	404
2. Highways.....	1958-67	330
3. Public housing sites.....	1937-67	177
4. Equivalent demolitions.....	1937-67	143
5. Local codes.....	1937-67	(1)
Total.....		1,054

<sup>1</sup> Not available.

### Who suffers from the demolition?

It has been primarily the poor, the near poor, and lower middle class whose houses have been demolished. Public housing and most urban renewal sites naturally have been selected in areas with substandard housing, where by definition few if any of the upper income groups live and where, according to Groberg, at least 57 percent of the families are poor. The remaining 43 percent are primarily members of the near poor and lower economic middle class with a sprinkling of those above this level, particularly among Negroes who find it difficult to find housing elsewhere. The various freeways into and through our major cities more often than not avoid the areas where the well-to-do and affluent live and tend to cut through areas inhabited by families with comparatively low incomes. This is explained by three factors: (1) to the extent property values are lower in low-income areas, routes through these areas reduce expenditures for rights-of-way; (2) almost invariably, the more well-to-do families are both more articulate and more influential in opposing plans for highways through their residential areas; and (3) some planners actually use highway location as a kind of backdoor slum clearance device.

Similarly, substandard houses demolished or closed up under local codes, whether equivalent elimination is involved or not, are almost always lived in by the poor, the near poor, and sometimes by families in the lower middle class. This kind of housing is indeed all that many in these groups can afford. It is also true that the overcrowding and the resultant rough treatment these houses often have received has hastened their deterioration.

The houses destroyed have, indeed, commonly been substandard. They have lacked many essentials. Quite probably most of them should have been eliminated. But they gave shelter and, in varying degrees, comfort to the lower-income families that lived in them. Because they were destroyed under governmental programs thought to be in the interest of the general community, does not the community owe their occupants adequate replacement? These cannot be

provided merely by advice and counseling. To date the record of action has been a sorry, not to say a disgraceful one.

Although the urban renewal and the interstate highway programs are being carried forward vigorously, with about \$7.2 billion<sup>23</sup> spent by public agencies on the former and over \$40 billion on the latter, the 1949 authorization of 135,000 public housing units a year for 6 years, or a total of 810,000 has not even been approached. Instead, in the 19 years since the Housing Act of 1949, only about 460,000 units of public housing have been completed, with another 60,000 or 70,000 underway. We have moved in this program at about one-fifth of the rate authorized in 1949.

Even if we add in the 100,000 or so units of subsidized middle-income housing, a big deficit still exists between the number of housing units directly destroyed and the number directly built for the poor, near poor, and those in the lower middle class.

Quite probably the staff estimates of the volume of demolition and, therefore, of the gap between units destroyed and units added by direct governmental action are very conservative—i.e. on the low side. In the most recent study of demolition for the National Association of Home Builders,<sup>24</sup> the estimates of public demolition of housing from 1950–68 total 2.38 million units. Because the time periods as well as the component estimates differ, direct comparisons are very difficult. The NAHB study by Messrs. Sumichrast and Farquhar includes substantial annual volumes for code enforcement (48,000 units per year in 1960–64) and for State action (26,000 units per year in 1960–64), in addition to demolitions for federally aided highways.

In addition, total demolition by private action for the same period is estimated at 2.35 million units. Thus the public-private division according to that study is close to 50–50. This large volume estimated for private action raises some nice questions about the gap or deficit pointed out above. Surely some considerable proportion of private demolitions was to clear sites for higher income housing aided by FHA and another, probably greater proportion, was for housing and nonhousing building more or less directly aided by local governmental action—e.g. provision of streets, recreational facilities, sewers, water, etc. On the other hand, quite surely the proportion of low-income units removed by private demolition would be somewhat less.

On balance, it seems certain that if the more inclusive estimates by Messrs. Sumichrast and Farquhar of demolition volume, public and private, are even reasonably near the mark, the size of the deficit is very substantially greater than the Commission staff's estimates indicate.

What are the prospects that this lack of balance might be corrected in the future? Without a major increase in actual construction, the prospects are bleak. The plans for urban renewal, according to our study, call for the demolition of 360,000 more housing units. The interstate system is now proceeding to move into the central cities in a major way. The subcommittee of the Senate Committee on Governmental Operations estimates that highways in the next 5 years will demolish urban housing units at the rate of 49,000 a year. That will add another 250,000, bringing the total to 710,000. Large additional numbers of demolitions will result from code enforcement, from the application of the principle of "equivalence," and from the need for public housing sites. It is probable that there will be not far from a million additional demolitions within our cities during the next 5 or 6 years as a result of governmental action.<sup>25</sup> These will continue to fall with special weight upon the poor and other low-income families, and particularly upon low-income Negroes.

If we continue to build publicly assisted housing at a rate of 100,000 units a year or less, which has been the case for the past two decades, during the next 5 years society again will destroy at least twice as many dwelling units of the poor and near poor as it will build.

Meanwhile, needs will increase because there will be some increase in the urban population, both from an excess of births over deaths and from continued migration into the cities from the countryside and from the adjoining small towns and cities.

Two further considerations, however, should not be overlooked. The *suitable living environment* part of the national housing goal sometimes will require (a) that densities in families per acre be reduced when new low income units are built on sites cleared of old substandard housing, and (b) that some housing units be demolished in providing neighborhood parks, playgrounds, and other essentially open spaces even in areas in which no new starts are undertaken immediately. Besides, most metropolitan

<sup>25</sup> Kristof estimates the number of units to be lost through demolitions in the period 1970–79 as 3.3 million. The five-year figure would be 1.65 million. This figure, of course, includes both rural and urban demolitions. Consequently, the 900,000 to 1 million unit estimates of demolition in our urban areas over the next five or six years means that government action will demolish at least two-thirds of all demolished houses in our urban areas in the next half decade.

<sup>23</sup> Excluding local land donations but including contracts authorized, local cash and locally financed public facilities.

<sup>24</sup> Sumichrast and Farquhar, *Demolition and Other Factors in Housing Replacement Demand*, 1967, pp. 14–22.



populations will continue to increase, at least for the short-range future.<sup>26</sup>

From this perspective on metropolitan housing possibilities for the near future, the Commission draws four conclusions:

(1) The volume of housing demolition and consequent displacement, largely of low-income families and with very little new building for them, must be a major source of feelings of frustration, alienation, and resentment among low-income groups, particularly those in central cities and particularly Negroes. No one enjoys what he thinks of as "being pushed around." It takes little empathy to see that in recent years this is exactly what the experience of many low-income families looks like to them. Even those not displaced seldom know when or if they, too, may be the victims. The suspense and the rumors that it inevitably engenders may be almost as unsettling as the actual displacement. The charge is usually made against demolition and displacement in governmental programs, but in some of the Commission's hearings it was clear that displacement by private demolitions were bitterly resented too.

(2) The natural response to criticism and opposition to housing programs basically involving demolition—notably urban renewal and public housing—is to turn to rehabilitation. Although the Commission believes that many substandard houses can and should be so treated, it would warn against wholehearted and uncritical acceptance of rehabilitation as "the answer." It, too, has its limitations and dangers. It, too, may result in displacement—if not before rehabilitation is begun, then after it is completed and rents are raised. It may make substandard units meet the "specified criteria" of the weather-tight box with pipes in it, and still leave them far short of a decent home in a suitable living environment. Sometimes, to be sure, this may be a necessary interim step, but many times it is neither a necessary nor a wise action.

(3) Any reasonably honest review of demolition in the past and the prospects for it in the near future underlines the crucial importance of a program to provide at least 500,000 to 600,000 housing units per year directly for low-income families. Such a program intelligently and sensitively administered could take the sting out of the inconveniences and some hardships that even the most justified demolition usually causes. It could make Government ac-

tion in housing an antidote for resentment and unrest rather than an aggravation of them. It could facilitate the changes underway as our society attempts to reshape the form and structure of our cities to meet changes in technology, ways of life, and social norms that we now see on every hand. It could help us avoid the imminent danger that the difficulties besetting well intentioned programs for renewal, housing, transportation, open space and other public facilities may be multiplied by public opposition to the point that they become a messy patchwork of projects rather than effective instruments in building a bright, new and more humane urban world.

(4) The "equivalent elimination" provision in the act of 1937 should be repealed. It certainly is not necessary now to assure a substantial volume of demolition of poor housing. It makes no sense in light of the present and impending migration of lower income families into the central cities of metropolitan areas. It was not a part of the program envisaged by the earlier proponents of better low-income housing, but was added on the floor of the Congress at the urging of some Members who thought that the program of the act was not really an honest attack on bad housing conditions but some sort of socialistic assault on private housebuilding that must be hobbled and hedged in. That specter has been laid to rest long since, but the crippling and distorting effects of this provision continue to this day.

*A city-by-city comparison of public housing units built and units demolished by urban renewal or equivalent elimination*

In addition to compiling totals for the country as a whole, we have also compared the number of public housing units built in each of 74 cities, since 1937 and since 1949, with the number of governmentally induced demolitions. (See table 7.) The first 51 of these cities, which have urban renewal or public housing, are ranked by population size. The remaining 23 cities were not among the first 50 in population in 1960, but they were among the first 57 in the size of urban renewal grants received. Each received a total of more than \$20 million. (Figures not available for two cities in first group—San Diego and Long Beach, Calif.)

Separate figures are given for each city on the number of housing units demolished up to 1968 because of urban renewal. We have also been able to isolate for the 13 years from 1937 to 1950 the demolitions on (a) public housing sites amounting to approximately 42,000 and (b) the 35,000 caused by the requirement of equivalent demolitions. Many of this later group were probably also in serious violation of

<sup>26</sup> The July 1968 report of the Census on *Recent Trends in Social and Economic Conditions of Negroes in the United States*, which includes preliminary data from the March 1968 Current Population Survey, shows a 1960-66 increase in 12.8 million people in metropolitan areas and a 1966-68 increase of 1.5 million, despite central city decreases in both white and nonwhite populations during the latter period (p. 4).



TABLE 7.—COMPARISON OF DWELLING UNITS OF PUBLIC HOUSING BUILT WITH DWELLING UNITS DEMOLISHED THROUGH EQUIVALENT ELIMINATION PROVISIONS CONNECTED WITH PUBLIC HOUSING OR AS A RESULT OF URBAN RENEWAL—51-CITY AND 74-CITY DATA AND TOTALS

City (by population)	Dwelling units of public housing built			Dwelling units demolished							Surplus or deficit
	Under management as of 1949	Built 1949-67	Total under management 1967	Equivalent elimination demolitions as of June 30, 1949			Equivalent elimination demolitions, 1949-63	Total equivalent elimination demolitions as of December 1963	Urban renewal demolitions, 1949-67	Total demolitions (8 plus 9)	
				Onsite	Offsite	Total					
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)		
New York, N.Y.	14,171	50,462	64,633	3,333	9,212	12,545	10,172	22,717	33,697	56,414	+8,219
Chicago, Ill.	8,483	24,477	32,960	3,033	434	3,467	1,871	5,338	26,058	31,396	+1,564
Los Angeles, Calif.	3,468	5,819	9,287	324	205	529	1,160	1,689	4,641	6,330	+2,957
Philadelphia, Pa.	3,248	12,471	15,719	953	1,909	2,862	3,418	6,280	15,856	22,136	-6,417
Detroit, Mich.	4,879	3,301	8,180	236	188	424	423	847	11,216	12,063	-3,883
Baltimore, Md.	5,021	5,314	10,335	3,404	838	4,242	4,568	8,810	8,661	17,471	-7,136
Houston, Tex.	2,251	348	2,599	686	1,524	2,210		2,210		2,210	+389
Cleveland, Ohio	5,179	2,279	7,458	1,248	2,729	3,977		3,977	5,095	9,072	-1,614
Washington, D.C.	3,147	6,909	10,056	563		563	1,378	1,941	7,127	9,068	+988
St. Louis, Mo.	1,315	5,930	7,245	1,134	184	1,318	704	2,022	9,156	11,178	-3,933
Milwaukee, Wis.	651	2,415	3,066				423	423	3,703	4,126	-1,060
San Francisco	1,741	4,142	5,883		197	197	3,037	3,234	5,554	8,788	-2,905
Boston, Mass.	5,102	5,871	10,973	5,619		5,619	2,861	8,480	8,906	17,386	-6,413
Dallas, Tex.	1,750	4,622	6,372	456	450	906	40	946		946	+5,426
New Orleans, La.	5,381	6,889	12,270	3,121	716	3,837	234	4,071	342	4,413	+7,857
Pittsburgh, Pa.	4,463	4,771	9,234	762	1,897	2,659	671	3,330	7,191	10,521	-1,287
San Antonio, Tex.	2,554	3,009	5,563	1,680	102	1,782	76	1,858	1,622	3,480	+2,083
San Diego, Calif.											
Seattle, Wash.	1,068	2,452	3,520	478	33	511		511	190	701	+2,819
Buffalo, N.Y.	2,571	1,799	4,370	487	742	1,229	571	1,800	2,715	4,515	-1,145
Cincinnati, Ohio	3,818	2,404	6,222	1,015	660	1,675	1,409	3,084	9,012	12,096	-5,874
Memphis, Tenn.	3,305	1,740	5,045	1,318	524	1,842	86	1,928	3,233	5,161	-116
Denver, Colo.	770	2,826	3,596	123	469	592	2,438	3,030	3,882	3,882	-286
Atlanta, Ga.	5,188	3,794	8,982	1,599	1,867	3,466	2,000	5,466	6,264	11,730	-2,748
Minneapolis, Minn.	464	2,825	3,289				305	305	7,364	7,669	-4,380
Indianapolis, Ind.	748		748								+748
Kansas City, Mo.		2,383	2,383		477	477	694	1,171	3,173	4,344	+1,961
Columbus, Ohio	1,352	1,529	2,881	324	689	1,013	180	1,193	3,309	4,502	-1,621
Phoenix, Ariz.	604	1,000	1,604	253	342	595	138	733		733	+871
Newark, N.J.	2,711	8,180	10,891	608	1,467	2,075	1,442	3,517	5,486	9,003	+1,888
Louisville, Ky.	3,005	1,957	4,962	2,277	394	2,671	1,511	4,182	6,456	10,638	-5,676
Portland, Oreg.	400	1,059	1,459		51	51		51	1,654	1,705	-246
Oakland, Calif.	922	1,094	2,016				920	920	1,674	2,594	-578
Fort Worth, Tex.	502	572	1,074	1,680	102	1,782	300	2,082		2,082	-1,008
Long Beach, Calif.											
Birmingham, Ala.	2,768	2,755	5,523	807	1,285	2,092	1,064	3,156	2,102	5,258	+265
Oklahoma City	354	464	818						368	368	+450
Rochester, N.Y.		256	256						767	767	-511
Toledo, Ohio	1,440	513	1,953	123	924	1,047	1,376	2,423	943	3,366	-1,413
St. Paul, Minn.		2,354	2,354				356	356	2,107	2,463	-109
Norfolk, Va.	730	2,990	3,720				1,280	1,280	4,763	6,043	-2,323
Omaha, Nebr.	1,078	1,370	2,448	255	496	751	596	1,347		1,347	+1,101
Honolulu, Hawaii	361	2,149	2,510						1,842	1,842	+668
Miami, Fla.	1,318	3,140	4,458		122	122	1,614	1,736	959	2,695	+1,763
Akron, Ohio	550	219	769	271	171	442		442	1,201	1,643	-874
El Paso, Tex.	660	990	1,650	766		676	96	772		722	+928
Jersey City, N.J.	1,600	2,204	3,804	195	296	491	2,604	3,095	1,199	4,294	-490
Tampa, Fla.	1,682	2,010	3,692	305	562	867	1,170	2,037	1,470	3,507	+185
Dayton, Ohio	1,191	1,143	2,334	122	590	712	950	1,622	3,359	4,981	-2,647
Tulsa, Okla.		72	72						822	822	-750
Camden, N.J.	1,102	932	2,034	89	-184	273	564	837	713	1,550	+484
51-city total	115,998	207,272	323,270	39,557	33,032	72,589	54,700	127,289	222,832	350,121	-26,851
New Haven, Conn.	1,035	1,092	2,127	575	149	724	193	917	3,801	4,718	-2,591
Nashville, Tenn.	1,578	3,310	4,888	246	332	578	650	1,228	3,201	4,429	+459
Providence, R.I.	1,056	1,916	2,972	137	36	173	2,532	2,705	3,245	5,950	-2,978
Syracuse, N.Y.	678	981	1,659	556	86	642		642	1,310	1,952	-293
Hartford, Conn.	1,879	666	2,545	355	210	565	600	1,165	1,769	2,934	-389
Paterson, N.J.	300	1,990	2,290				896	896	1,280	2,176	+114
Scranton, Pa.		888	888				490	490	1,251	1,741	-853
Mobile, Ala.	398	3,005	3,403	171	219	390		390	1,566	1,956	+1,447
White Plains, N.Y.									74	74	-74
Little Rock, Ark.	250	914	1,164		55	55	427	482	2,598	3,080	-1,916
Winston-Salem, N.C.		1,538	1,538				149	149	2,400	2,549	-1,011
Kansas City, Kans.		554	554						1,849	1,849	-1,295
Atlantic City, N.J.	610	288	898	53	269	322	288	610		897	+1
Sacramento, Calif.	478	282	760				767	767	1,087	1,854	-1,094
Fresno, Calif.	210	909	1,119	25	99	124	155	279	1,296	1,575	-464
Springfield, Mass.		392	392						1,411	1,411	-1,019
New Britain, Conn.	340	290	630		102	102	350	452	761	1,213	-583
Stamford, Conn.	398	429	827		97	97	620	717	459	1,176	-349
Huntsville, Ala.		1,555	1,555				466	466	818	1,284	+271
Worcester, Mass.		939	939				711	711	534	1,245	-306
Erie, Pa.	264	622	886				315	315	610	925	-39
Cambridge, Mass.	618	365	983	160	170	330	304	634	277	911	+72
McKeesport, Pa.	405	598	1,004		204	204	513	717	550	1,267	-263
23-city total	10,498	23,523	34,021	2,278	2,028	4,306	10,426	14,732	32,434	47,166	-13,153
74-city total	126,496	230,795	357,291	41,835	35,060	76,895	65,126	142,021	255,266	397,287	-40,004

the local codes. For the years 1950-63, our staff has compiled for each of these cities the number of equivalent demolitions reported. But it should be understood that the instructions which were issued to govern the original reporting specifically provided that demolitions on the site of public housing projects were not to be included.

Therefore, while we have made a closer approximation of the total number of governmentally induced demolitions in the major cities of the country than has been heretofore available, our results are still an understatement of the total number of forced demolitions in a number of categories. Thus, they do not include demolitions (1) on public housing sites after 1950, (2) caused by highways, (3) resulting from the enforcement of local codes not covered by equivalent demolitions and (4) those carried out under the equivalent principle during the 4 years 1964-67, although we do include the 133,000 public housing units built during those years. Because the statistics for the 72 cities given in table 9 are appreciable understatements, what they do indicate is all the more striking. Following are some of the highlights:

(1) The number of demolitions induced by governmental action which we have been able to record was 397,287. This made a total deficit of recorded demolitions over the number of public housing units built of 40,000. If the holes in the data could have been filled, a much larger total deficit, of course, would show up.

(2) Some of the cities that showed a large excess of demolitions over construction were Baltimore with a deficit of 7,136 housing units, Philadelphia with 6,417, and Boston with 6,413. Cincinnati had a deficit of 5,874, Louisville 5,676, Minneapolis 4,380, St. Louis 3,933, Detroit 3,883, Providence 2,591, Atlanta 2,748, Dayton 2,647, and New Haven 2,591. Other cities with a high relative rate of demolitions as compared with building were Fort Worth, Little Rock, Kansas City (Kans.), Kansas City (Mo.), Sacramento, Norfolk, Winston-Salem, and Springfield (Mass.).

(3) Some of the cities, however, showed an apparent surplus of public housing construction over demolitions recorded. The surplus in New York amounted to 8,219, in Los Angeles to 2,957, and in Chicago to 1,564. In New Orleans the surplus was 7,857 and in Dallas (which did not undertake urban renewal) it was 5,426. It was 2,819 in Seattle, 2,083 in San Antonio, 1,888 in Newark, 1,763 in Miami, 1,447 in Mobile, and 1,101 in Omaha. But it should constantly be remembered that if it had been possible to measure the total volume of units demolished most,

if not all, of these cities would have shown substantial deficits.

(4) It is interesting to note that Detroit and New Haven, two cities in which severe riots occurred in 1967, even according to our incomplete records, had demolished many more houses than were built under public housing. New Haven, as we pointed out, had a deficit of 2,600 housing units. If one assumes an average of four persons per unit, the 2,600-unit deficit amounted to housing for more than 10,000 persons—roughly 7 percent of New Haven's population. It is hard to escape the question of the relation between these large deficits as between units demolished and low-income units built and the unrest that led to the rioting. It may be objected that Newark, where the rioting was at least as severe as in Detroit, built approximately 1,900 more units of public housing than demolitions recorded. But two replies may be made to this. First, we find that 2,711 units of public housing had been built during the early period of 1937-49 and probably had been largely forgotten as had, perhaps to a lesser degree, the 2,075 demolitions during that period. Furthermore, as the detailed accounts of the New York Times and Washington Post record, one of the immediate antecedents of the rioting was the announced plan of a hospital to take over 150 acres of additional land in a low-income area under urban renewal.

(5) As has been intimated in the case of Newark, the timing of demolitions in relation to new building often makes a difference in public attitudes and reaction. Thus in Camden, N.J., from 1937 to 1949, 1,102 units of public housing were built, and only 273 units were demolished. From 1949 to 1967, 932 units of public housing were built, as against 564 equivalent demolitions in the 1949-63 period and 713 for urban renewal up to 1968. This gave not a deficit but a surplus of 484 units. During the 5 years from 1963 through 1967, however, only 90 units of public housing and 871 units of middle-income housing had been built. On the other hand, during this period, urban renewal, highway construction, and code enforcement had directly demolished accommodations for from 2,353 to 2,765 families.<sup>27</sup> This had displaced from 8,800 to 10,500 persons, or from 7.5 to 9 percent of the 1960 population. In addition, plans for the next 5 years seem to call for the displacement of an equal number of families. These statistics point their own moral. No community should be expected to absorb such blows as these.

Indeed, over most of the country, public housing programs and other forms of housing

<sup>27</sup> See the study, "Camden, New Jersey," supervised by the Reverend Donald A. Griesman, 538 Broadway, Camden, New Jersey, pp. 119-120 and 122.



assistance to low-income families, despite all the brave talk, are still developing at a relatively slow rate, while the rates of demolition because of urban renewal and highway construction are

being speeded up. Families are therefore being displaced on a large scale, and this cannot be overlooked as among the main contributing causes of urban unrest.

## RELOCATION

It may well be argued that consideration of relocation does not belong in a chapter on *housing needs*, as this phrase has been defined and used above. *Relocation, per se*, does not add to needs beyond those caused by demolition and the consequent displacement of families and businesses. The only exceptions would be (a) families forced to move under code enforcement that effectively closed buildings to occupancy but did not force their demolition; (b) those forced to relocate because of changes in their buildings from housing to nonresidential uses; and (c) those evicted or otherwise forced to move for various reasons that do not have to do directly with buildings. (Even these exceptions might be taken up under such headings as codes, removals from housing inventory, or welfare policy.) Relocation is essentially the practices and policies under which moves, particularly forced or involuntary moves, take place and the families and businesses try to find other quarters. Nothing is to be gained, according to this argument, by confusing displacement with ways and means of dealing with it.

The Commission, however, discusses relocation in connection with housing needs for practical reasons. Although displacement of families and businesses may result from various actions by public and private agencies, the basic questions about all relocation involve issues of fairness, justice, and humaneness, as well as the responsibility of public agencies to see that the weaker and less articulate groups in our society are not forced to bear an unnecessary share of the human costs and hardships of urban change and development. Also many public programs outside the Commission's assignment, notably highway programs, face the same or very similar relocation difficulties. Finally, relocation has become recognized as a crucial component of urban redevelopment, broadly defined. In recent years a large and apparently increasing volume of criticism and controversy has centered on it. The Commission believes relocation should be faced head on in its true proportions and not simply as an unpleasant detail, something like getting old buildings out of the way of new construction.<sup>28</sup>

Aspects of relocation practices are receiving attention these days through the door of eminent domain. Federal and State constitutions require that owners of property taken in eminent domain procedures, must be paid what is usually termed "just compensation." They are silent as to what just compensation is and how it is to be determined, except that "due process of law" must be observed. Some State statutes specify some items that should or should not be taken into account in determining just compensation, but the task of giving content and meaning to just compensation has been left largely to the courts. By and large, they have relied on the idea that just compensation is fair market value of the property taken.

So-called "incidental expenses" often are not included under the doctrine of fair market value. These include such things as moving expenses, loss on personal property that might not fit into a new location, or closing costs and other expenses in acquiring another property in place of the one taken.

Under the fair market value doctrine, tenants of the property (except those with leasehold equities under a long-term lease on the land) have received scant consideration. As to incidental costs, the argument is made that as lessees they have been aware that these costs might occur at the expiration of the lease. All that the eminent domain procedure does is to change the time at which they are incurred.

In recent years a few States have passed laws that would include certain incidental costs or damages as parts of just compensation under eminent domain. The Federal Government, however, and some other States have taken the alternative route of authorizing direct payments by administrative agencies responsible for the programs that impose these costs on families, individuals, businesses, and nonprofit organizations. This approach seems almost certain to be fairer in considering costs incurred

<sup>28</sup> Because its treatment of relocation cannot be exhaustive or even thorough, the Commission would call particular attention to two fairly recent, official publications on the subject: (1) *Relocation: Unequal Treatment of People and Businesses Displaced by Governments*, a report of the Advisory Commission on Intergovernmental Relations, January 1965; (2) *The Housing of Relocated Families—Summary of a Bureau of the Census Survey of Families Recently Displaced from Urban*

*Renewal Sites*, put out in March 1965 by HUD's predecessor, the Housing and Home Finance Agency. One of the best non-official discussions of the subject is found in eight articles in the *Journal of Housing* for March 1966. By and large these materials are factual and fair. They are by no means a whitewash of current relocation practices, but they do avoid the two main weaknesses of many critiques that have appeared in recent years: Too much reliance placed on studies of the early and middle 1950's when both housing market conditions and relocation methods were materially different from what they have become since those years; and a tendency to depend too much on innuendo, including suggestions that the considerable gaps in information on some aspects of relocation usually are the result of suppression of facts by government agencies—facts that would not be favorable to the agencies.



by both property owners and tenants. It would not increase and might reduce the proportion of eminent domain takings as against negotiated purchases. It seems likely to help low-income families, individuals, and businesses more effectively, avoiding for them the serious disadvantages of litigation such as hiring an attorney and preparing arguments before a court.

Before looking at the programs involving the recent relocation problems and difficulties, one byproduct of the eminent domain approach should be noted. It is the dubbing of these expenses, damages, and losses as *incidental*. This word has two connotations: Something occurring in conjunction with something else, and something very minor, insignificant, or negligible. Altogether too much of the flavor of the latter meaning has marked much discussion and action on relocation practices and payments.

To be sure, in comparison with the capital sums for land acquisition under urban renewal or highway programs, which rapidly run into the tens and hundreds of millions of dollars, the payments made or even needed for relocation are small indeed. A table prepared for the Commission<sup>29</sup> shows that a total of 158,543 families received Federal relocation payments through June 30, 1967, in a total amount of \$12,330,405 or \$77.77 per family move. For the fiscal year 1967, the average was \$95.32. (These payments were first authorized in 1956.) For individuals the numbers were 64,114 cases for a total of \$3,273,175 or \$51.05 per individual. The average for fiscal 1967 was \$65.58. But for nearly all of the families and individuals who received some \$50–\$95 each, these payments are *not* negligible or insignificant. Neither is the time or manner in which they are made. Both the amounts and the indication of some, if inadequate, concern by national and local governments with their plight and their difficulties are, to them, important.

Now let us focus on relocation under the urban renewal and highway programs. Together these two are accounting for roughly two-thirds or more of the relocation volume of all government or government-assisted programs. They offer interesting contrasts in approach, policy, and method.

### *Urban renewal*

Title I of the Housing Act of 1949, which set up the Federal-aid program for what has since been called *urban renewal*, included language<sup>30</sup> limiting Federal aid only to agencies which would provide “a feasible method for the temporary relocation of families displaced from the project area.”

The act of 1949 was one of the first, if not in fact the very first, urban-oriented Federal-aid measures explicitly requiring relocation of displaced people as a condition of the aid.<sup>31</sup> It is ironic, therefore, that this part of the urban renewal program probably has been the target of more, and more bitter, criticism than any other, with the possible exception of the neglect of low-income housing in renewal or redeveloped areas.

In 1956 Congress provided for relocation payments of up to \$100 for families and individuals and up to \$2,000 for businesses displaced by urban renewal action. These payments were to be 100-percent Federal funds. If partial local matching funds had been called for, it was feared that in eminent domain actions some courts might hold that local funds could not be used for such payments because they were not recognized as a part of just compensation. The provision in the act of 1956 marked the notable advance of a clear recognition of public responsibility in relocation—not as an expense that would have to be borne only if the renewal agency could not unload it on someone else. In 1959, the amounts of relocation payments were raised to \$200 for individuals and families and to \$3,000 for businesses. Later the policy was extended and liberalized considerably. Nonprofit organizations were made eligible for aid. In exceptional cases it became possible to pay much more than \$3,000 for actual moving expenses of businesses—up to an administratively set ceiling of \$25,000. Further, the Secretary of HUD was empowered to authorize local renewal agencies to pay fixed amounts, within the \$200 limit, to families and individuals instead of “\* \* \* reasonable and necessary moving expenses and any actual direct losses of property (\* \* \* for which compensation is not otherwise made).” Additional payments were also authorized beyond those mentioned above for moving expenses and “actual direct losses of property.” These additions were to cover such items as recording fees and transfer taxes in conveying title and penalties for prepayment of mortgage indebtedness. Relocation payments were author-

<sup>31</sup> Although this congressional action is a landmark in the evolution of relocation policy, it was not the first time that public monies had been used to meet some relocation expenses. As early as 1941, the U.S. Housing Authority in administering the public housing program of the act of 1937 had allowed local authorities to pay some moving expenses as a part of project development costs. This administrative regulation, however, was a grudging recognition of the problem. It required that local housing authorities encourage all families who possibly could to move at their own expense, and for the poorest to try to enlist help from welfare agencies, public or private. It even pointed out that the Salvation Army and city public works departments might have trucks that could be used. Only after exhausting these possibilities were housing funds to be used and advance approval by USHA was recommended. (U.S. Housing Authority—Relocation of Site Occupants—Revised Apr. 3, 1941, pp. 5–6). A similarly limited approach to the hard core cases was used in the earlier days of renewal.

<sup>29</sup> Groberg, op. cit.

<sup>30</sup> Housing Act of 1949, Title I, Section 105.

ized in other HUD assisted programs for public housing, community facilities, open space, urban beautification, urban mass transportation, neighborhood facilities, rehabilitation, demolition, and code enforcement. For the last three programs, however, payments were limited to relocation due to actions in urban renewal areas.

In addition to these relocation payments, from 1964 on *relocation adjustment payments* have been authorized. Within a limit of \$500, these are calculated by the difference between 20 percent of the income of a family or of an individual over 62 and the rental of “\* \* \* a decent, safe, and sanitary dwelling of modest standards \* \* \*” for a period of 12 months. No family (or individual) is eligible for these payments unless it is unable to get into public housing or housing under the rent-supplement program.

Another aid to displaced families is not, strictly speaking, a relocation aid, but is aimed at the same problems of displaced, low-income families. Federal annual contributions for public housing may be increased by \$120 per year for each displaced family housed if that family's income is so very low that it could not afford to pay a rental sufficient, with normal public housing subsidies, to meet the necessary expenses of the housing project or development.

Finally, another recent amendment to the act of 1949 has received less attention than it deserves. Under this amendment, made in the act of 1965, “\* \* \* the Secretary shall require, *within a reasonable time prior to actual displacement*, satisfactory assurance by the local public agency that decent, safe, and sanitary dwellings *are available* for the relocation of each such individual or family.”<sup>32</sup> This language seems to remove one of the weak spots in the original requirement which was somewhat ambiguous and probably led to some evasion of the intent of the law. It was quite possible, particularly during a housing shortage, that when a contract for a loan or capital grant was entered into, proper dwellings were being provided but that before actual displacement some or all of them had been occupied by other families, many of whom may have moved out of substandard units or have been newcomers to the area and, therefore, had left no other decent dwellings for those displaced.

Even a quick look at the provisions made for relocation payments and other aids to displaced families and individuals would seem clear evidence of a more than casual and an increasing concern over the difficulties and hardships faced by those forced to move by renewal. Why, then, the volume and severity of the criticism re-

ferred to above? What is the truth of the matter as it now can be made out?

First, a substantial proportion of the extensions and improvements in relocation practice are of very recent vintage—1964 and 1965, for many of them. The process of putting the provisions of laws into practice, particularly in a nationwide Federal aid program that envisages a substantial degree of local responsibility and judgment, takes more time than is sometimes assumed. Many of the more widely endorsed criticisms of relocation are based largely on scattered, local studies made in the early and middle 1950's or even before.

The failure of many local renewal programs to include reasonable amounts of low-income housing probably has added bitterness to much of the criticism of relocation. The critics seem to have concluded that agencies manned by people so obviously blind to one of the paramount needs of their communities are not likely to follow through on a decent relocation program, no matter what laws are on the books. In reply to the official claims that most of the families displaced have gone into standard or acceptable housing, their definition of what is acceptable for low-income families is not received with much confidence.

The most impressive study of the actual results of relocation practices is that of the Bureau of the Census, which was made for HUD's predecessor, the Housing and Home Financing Agency, and put out in March 1965. The Bureau's own summary is worth quoting:

... The survey consisted of the interviews conducted at 2,300 relocation housing units that were occupied by households relocated during June, July, and August of 1964 from urban renewal projects located in 132 cities. Of the households covered, 1,090 were white, 1,210 nonwhite. The interviewing began after Thanksgiving and was completed early in January of this year.

The survey disclosed the following pertinent facts.<sup>33</sup>

The vast majority—94 percent—of the displaced families were relocated in standard housing.

Median gross rents are higher—\$74 compared with \$66 prior to relocation—while the median proportion of income spent for rent increased from 25 percent to nearly 28 percent.

Nearly two of every five relocated families had incomes below \$3,000 and almost the same proportion had incomes between \$3,000 and \$6,000.

Home ownership increased from 33 to 37 percent.

Most relocated families found that work and basic community facilities were at least as conveniently located as before—66 percent finding the convenience of neighborhood shopping about the same or better and 71 percent finding public transportation as satisfactory or better than previ-

<sup>33</sup> As a general rule, throughout this (Census-HHFA) report, percentages relate to the number of cases reporting. For the *journey to work* and *distance to church*, however, the percentages relate only to those cases for which the inquiry was applicable. Thus, the unemployed were not queried about the distance to their journey to work nor those without religious affiliations about the distance to place of worship. For the study and a critique of it, see *Federal Role in Urban Affairs*, Hearings, Subcommittee (Ribicoff) on Executive Reorganization of the Senate Committee on Government Operations, 89th Congress, Part 1, pp. 100-144.

<sup>32</sup> Italics added. Section 105(c) (2).



ously—55 percent reporting their church no farther away than before.

Shifts in jobs following relocation were not substantial, with only 10 percent of those with a fixed place of employment changing jobs in the period following the move.

Thirty-seven percent of the household heads with a fixed place of employment reported a longer journey to work.

Seventy percent of the families relocated themselves, although nearly 90 percent of the households received counseling, financial, or other assistance from the local public agency during the relocation process.

It should be noted that this study was of households relocated in mid-1964—before the Housing Act of 1964, with its strengthening amendments on relocation, was passed.

But it should be noted also that the study has had its critics, too, including data found in part 1, pages 100–144, of the Ribicoff hearings in 1966.

Unfortunately, it must also be noted that here, again, the Census used the old definition of standard housing that the Commission, earlier in this chapter, has criticized as hopelessly inadequate—the nearly weather-tight-box-with-pipes-in-it definition.

Clearly the most unsatisfactory result of this round of relocation is the substantial increase in rents paid—from a median of \$66 to \$74—and in the proportion of income paid—from a median of 25 to 28 percent. These are gross rents; i.e., the rents actually paid and certain utilities. Tables in the census report show that in *changes* in rent-to-income ratios, nonwhite families did rather better than white ones. Before relocation the median proportion paid by nonwhites was 28.4 percent; after relocation, 28.9 percent. The corresponding figures for white families were 22.2 percent before and 26.1 percent after. Thus the disadvantage of nonwhite families, what has sometimes been called the “color tax,” was reduced from 6.2 percentage points to 2.8. Also, families who were referred to their new quarters by relocation offices of local agencies made out much better in this respect than the “self-located.” Of the families aided by local agencies, only 17 percent of the whites and 26 percent of nonwhites were paying less than \$50 per month before relocation, and 29 percent of the whites and 39 percent of the nonwhites were under \$50 after relocation. Of the self-located, the proportions under \$50 went down after relocation for whites from 14 to 7 percent and for nonwhites from 23 to 14 percent. Practically all of the self-located families went into private housing. Relocation aid other than payment of expenses can help lower-income families appreciably, but overall it is not substitute for an adequate supply of good housing, reasonably related to the incomes of the households displaced.

In basic legal authorization, rules and orga-

nization, and almost surely in results, relocation has been improving, particularly in the past few years. The Commission suggests further, however, that the time has come to reassess relocation policy and practices in broader terms. For it seems hard to escape the conclusion that the primary purpose of relocation practice, if not of announced policy, has changed but little. In the earlier stages of renewal it might be summarized: get the site occupants out of the way of project construction with as little delay and outright hardship as possible. More recently a clause might be added to the preceding sentence: “and with as much improvement in their housing as market conditions allow and with some respect for their dignity as human beings.”

Much could be said in behalf of this revised statement of purpose, but is it good enough? Why should relocation practice be tied more or less tightly to renewal or other projects? Why should anyone—legislators, administrators, or concerned members of the public—be reasonably satisfied when surveys show that the housing of those displaced improved a little on most counts and was not much worse on a few others?

The Commission prefers to look at renewal in a rather different light and in a different perspective. Relocation should be seen essentially not as a ground-clearing operation but as a direct and integral step in the march toward the national housing goal—“for every American family.” A large and steadily increasing proportion of those displaced, including those of low income, should be able to go directly into a decent home and a suitable living environment, regardless of who or what displaced them. Like all worthwhile social objectives, this one will not be attained soon or all at once, but as has been said, let us begin.

In more specific terms, this policy objective has many implications, including:

1. A large volume of private house building would have to be extended over as wide an income market as possible.

2. This volume of building would have to be accompanied by a massive investment in public and quasi-public capital facilities—schools, recreation, open space, transit facilities, water and sewer, hospitals, clinics, neighborhood centers, etc.

3. The provision of housing for low-income families would have to be of an entirely different order of magnitude than we have known in the past. The 500,000 to 600,000 units a year proposed by this Commission would be a minimum.

4. Equally important, a start would have to be made on producing a substantial amount of low-income housing well before actual displacement in any volume took place in the future.



Because of difficulties in timing both low-income housing production and property acquisition under urban renewal, local agencies quite often might have to supply temporary or interim quarters. This could be done in several ways, including the use of mobile homes or leased housing. The objectives, however, would be clear—to have available, a reasonable time (say, not less than 2 months) before families are displaced, a reasonable choice of decent houses and suitable living environments for the displaced. If any of them prefer to go into other slum housing or elsewhere than into any of the decent homes and neighborhoods, that is their affair, but the choice should be open before the families are displaced. They should not be told, in effect: we will pay your expenses for moving and help you get out of the way of this important project for other people, manana, when this project is done and if or when someone else get around to it, maybe some decent houses in decent neighborhoods will come your way.

5. Substantial proportions of a city's low-income housing, whether from conventional public housing, 221(d)(3), turnkey, leased housing, rent supplements or other programs, would have to be vacant so that the low-income families displaced could have the first chance at it. Pointing with pride to continually low vacancy rates in these kinds of housing would be a thing of the past.

6. Families and individuals displaced by enforcement of housing, health, or other codes anywhere in the city would be treated in the same way as those displaced from a project or renewal area—with the same aids, and with equal access to good housing.

7. Those displaced by private development carried out with no (or only incidental) public aid should also have similar treatment. Perhaps a maximum family income limit for eligibility should be set. Relocation payments for moving expenses and personal property loss might be required from the developers or split between them and the local government.

Although a policy objective of this kind would amount to a substantial reorientation of most thought and action on relocation, in some respects it has been more or less foreshadowed by parts of recent Federal housing laws. An example is the 1965 amendment to the Housing Act of 1949—section 105(e)(2), referred to above. The Commission, however, commends it not as a drastic reorientation nor as an extension of earlier measures, but simply on its merits.

### Highways

Traditionally the highway program, one of the older Federal aid programs, almost com-

pletely ignored relocation. The position of the Bureau of Public Roads and the State highway departments was that their business was to finance and build highways. If displaced families or businesses encountered unusual inconvenience or hardships, these should be the concern of other agencies, not of the highway builders. For many years Federal aid was not available for roads within municipal limits. In those years, therefore, the volume of displacement per mile of road or per dollar of right-of-way and construction outlay was low. Since 1945, however, these aids have been applicable to some kinds of roads within urban areas. Displacement volume has risen sharply, and has brought in its train demands and suggestions for a different and more systematic treatment of relocation problems. These demands have increased since the Congressional action of 1956 *re* payment of relocation expenses in urban renewal. They also have been strengthened as more and more units of the interstate system have gone through heavily built-up urban districts, including often those lived in predominantly by families of low income.

In 1961 the President in a message to Congress urged legislation for relocation assistance. No action was taken by Congress. He repeated the recommendation in 1962 “\* \* \* that assistance and requirements similar to those now applicable to the urban renewal program be authorized for the Federal aid highway program and the urban mass transportation program.” (The latter, of course, was administered by HUD.)

The Federal Highway Act of 1962 required as a condition of Federal aid that State highway departments provide advisory assistance for displaced families, but not necessarily to individuals or businesses. The Bureau of Public Roads, however, encourages the highway departments to serve individuals and businesses. Expenses of this service that are clearly tied to a highway project may be financed as part of that project, but general administrative expenses may not. They must be met by the State agency.

Further, the act of 1962 authorized the inclusion of moving expenses (not personal property losses) of families, individuals, businesses and nonprofit organizations up to the urban renewal limits of \$200 and \$3,000. These provisions were permissive, not mandatory. If a State took advantage of them it would have to pay 10 percent of the costs on an interstate project and 50 percent on all other aided projects. No additional Federal funds were appropriated for relocation expenses. State highway officials who might wish to make relocation payments were faced, therefore, with a part of the costs of the

service and with the probability that they would receive less money for land acquisition and construction. In addition, of course, they would have to have authorization from State legislatures to use State funds for relocation payments. At the passage of the Federal act only eight States authorized any such payments, and in several of these the State authorization was so limited that full advantage could not be taken of the Federal act.

In 1965, 3 years after passage of the Federal act, the study of the Advisory Commission on Intergovernmental Relations reported that 22 States authorized some payments, but only in 12 were they in substantial accordance with the Federal law. A few States, depending on court decisions or an opinion of the attorney general, were making payments without explicit legislative authorization. The volume of assistance payments was low. Some State officials both in States with legislative authorization for such payments and those without it, argued that they were not necessary if definite plans for right-of-way acquisition were announced far enough in advance. An official of the Bureau of Public Roads, however, wrote the ACIR " \* \* \* Only 12 percent of about 21,000 families which had to move made any contact with the assistance office \* \* \* " If these offices typically were sitting back and waiting for families threatened with displacement to come to them, they surely would be of little help to most low income families in slum areas. The weakness of this position is also indicated by another statement in the ACIR report: "For residential moves, about 45 percent of the projects used State highway department district offices; 16 percent used onsite relocation offices set up by State highway departments; 14 percent used local renewal agencies; and 25 percent used other arrangements."

In 1967 Congress directed the Secretary of Transportation to look into relocation policies and practices under the highway program and to report back his conclusions. The Federal Highway Act of 1968, approved August 23, 1968, requires relocation practices much more like, but in some respects different from, those of urban renewal. Payment of moving expenses now becomes a condition of Federal aid. The BPR will meet 100 percent of these expenses—i.e., the States will not have to pay part of them—but the money will come out of appropriations for acquisition and construction.

#### *Concluding comment*

This discussion of relocation policy, practice, and difficulties has been largely centered on Federal aid programs for urban renewal and highways. These were selected primarily because of all governmental and Government-displacers of urban families, individuals, and

businesses. They also show sharp differences as well as some similarities in relocation practices. Both have undergone substantial changes in recent years.

From this review and its hearings the Commission is convinced that in urban renewal, public housing, and all other housing and housing-related programs the primary policy objective of relocation should be to make it, for just as many families and individuals as possible, a direct path to a decent home and a suitable living environment. This is a decided change from the present objective, which can fairly be said to be to move people out of the way of urban renewal projects and into shelter of at least minimum decency standards, and to do this as humanely and with as little financial cost and outright hardship to those displaced as possible. This enlarged objective would call for, among other things, a greatly strengthened effort to expand the volume of really good housing and good neighborhoods within the reach of low-income families. It also would mean that the provision of this housing should be given a high time priority in urban building and rebuilding plans so that displaced families will have a reasonable choice before they are actually displaced, of where they wish to live. To the degree that this policy objective may be realized, it would also ease considerably or even eliminate many of the relocation problems of private development and of governmental programs, such as highways, that are not concerned directly with housing.

As this change in objective and philosophy is being developed and implemented, careful attention should also be given to ways and means of improving relocation practice and procedures. The Commission is happy to endorse the recommendations of the 1965 report on relocation made by the Advisory Commission on Intergovernmental Relations, and would emphasize four of them:

- (1) All Federal and federally aided programs that displace families and businesses should follow a uniform policy in respect to relocation payments and advisory or counseling services to those displaced.

- (2) Similarly each State should adopt a uniform policy on these matters that would be binding on all of its agencies and programs.

- (3) All agencies responsible for or helping to finance programs that displace families and individuals should be allowed to go ahead with displacement only when they can give assurance that a sufficient supply of at least standard shelter is available to and within the means of those displaced.

- (4) Every effort should be made, particularly within the larger cities, to arrange



for the relocation process to be handled by one office or agency serving all the programs in operation at any one time. Ordinarily this office should be a unit of the general purpose local government. It should be manned by people well qualified to deal not only with the mechanics of payments and referrals but, more importantly, with the considerable range of problems and difficulties that displaced families of low income often have to face.

As to (1) and (2) the Commission would go a little beyond the ACIR recommendations. It believes that all States and the Federal Government should have essentially the same payments for moving and miscellaneous expenses and the same range and quality of informational, advisory or counseling services. Why should a family forced to move by a federally aided renewal operation receive either more or less in money or services than a similar family in the same city displaced by a State office building or hospital?

The Commission recognizes the importance in relocation of what is done and how it is done. It would, however, stress its conviction on two points: (1) Good organization, uniform payments, and qualified personnel are not substitutes for a good supply of good housing available to and within the means of displaced families of low income. (2) The basic objective and philosophy of relocation will influence, maybe subtly but nevertheless substantially, the quality and effectiveness of everything that is done. Is it essentially a ground clearing operation for new construction or rehabilitation, or is it an opportunity to move ahead directly toward the national housing goal?

*Housing needs of the poor cannot be met by the private market*

Private enterprise cannot meet all of our housing needs. Few average-size families with incomes under \$6,500, except in very low cost areas, can afford either to buy or rent standard housing. Allow 25 percent of income for buying and 20 percent for renting. This income would provide a monthly rental for standard housing of \$130, and a monthly mortgage payment (for principal and interest) of \$108, plus heat, insurance, taxes, and maintenance of another \$55 a month for a total homeowner's cost of \$163 a month.

Using the common rule of thumb (2½ times income), a family with \$6,500 a year could afford a \$16,250 house. A 6½ percent 30-year mortgage would require monthly payments of approximately the \$108 just mentioned.

Not quite half the families of the United States have incomes below \$6,500. For the family whose income falls below this amount or which

is larger than four members, standard housing is difficult to obtain.

We acknowledge that not all whose income is below \$6,500 face this situation. Some have inherited a house. Older persons on small incomes may have their houses paid for. Many single persons share housing costs. Childless married couples or those whose children are grown need less space and can buy decent housing for less money.

After one grants these exceptions, it is nonetheless true that families with incomes below \$6,500 find it difficult to buy or to rent decent, standard housing at market rates.

Not all of those in need can be subsidized. But there are only three general ways in which this problem can be attacked—by raising incomes, by reducing costs, or by subsidies.

First, increased incomes. As incomes rise, and unemployment falls, and especially as housing-deficient families and poverty families get jobs, the substandard housing problem will decline.

Second, if housing costs can be cut, whether through reductions in construction costs, land prices, or closing costs and fees, more people can afford to buy standard housing through the private market system. This is why we have devoted so much attention throughout the report to housing costs, new technology, restrictive practices, and building codes.

For each \$2,500 reduction in housing costs, a family requires \$1,000 less income a year to buy. If minimum housing costs were to fall from \$16,000 to \$13,500, families with only \$5,500 a year could afford subsidy-free housing. This would bring an added 10 percent of the families into the private market. Housing subsidies to those in the \$5,500 to \$6,500 income class would not be needed. These amounts could then be concentrated on reducing the housing needs of the poor.

Finally, the country must face the fact that subsidies will be needed if we are to meet the housing policy goal of the Nation as set forth in the 1949 act.

There is no way under present or foreseeable conditions that the poor or near-poor can buy or rent standard housing at private market rates. There is no magic way by which the poor can be decently housed without subsidy. *Direct rental payments, interest rate reductions, land writedowns, tax-free municipal bonds, added depreciation credits, or allowances are all subsidies.*

There is no way for private owners to make a profit by housing the poor in decent standard housing except through some form of aid or by demanding excessive payments from the poor. This fact must be faced.



## CHAPTER 2

# Financing of Housing—FHA, VA, FNMA

Few Americans can afford to pay cash for a house. Most people must go into debt to buy a home. Despite a traditional conservative bias against personal indebtedness, an exception has almost always been made for home purchase.

Homeownership is not a new goal. Everyone pays for shelter in some form. The form of purchasing by borrowing enables young families to pay off their debt in lieu of rent when their earning power is steady or growing, and promises security to those who complete payments and achieve full ownership before their earning power dwindles.

To provide the necessary credit and enable a family to have its own home when the need for it is greatest, an elaborate financing system has developed. The various institutions that serve the credit needs of home buyers are:

Governmental institutions:

Federal Housing Administration (FHA).

Veterans' Administration (VA).

Federal National Mortgage Association (FNMA).

Private and conventional credit institutions:

Mutual savings banks.

Savings and loan associations.

Commercial banks.

Life insurance companies.

During the century preceding the Depression of the 1930's, home loans, or mortgages, were handled entirely by private money lenders. They charged high interest, required large downpayments, and required rapid repayment, typically in 7 to 10 years. Buyers short of cash to meet approximately 35 percent of purchase price as downpayment had to borrow further from a second mortgage at still higher interest rates. Periodic payments often covered only the interest, with the full principal due at the expiration date. Buyers who could not meet payments because of illness or loss of jobs were in a precarious position, in danger of losing their homes and all the savings invested in them. Understandably, money lenders often were painted as villains in plays and novels, and the term "mortgage" was surrounded with an aura of fear.

The optimism of the 1920's tended to hide these risks, however. Home buying increased

greatly at the same time that values became highly inflated. When the economy collapsed in 1929, millions lost their homes in foreclosures and other millions were about to lose them. One measure of the severity of the crash is that new housing units were being built at an annual rate of 900,000 a year in the years before the Depression and only one-tenth of this amount, or 90,000 housing units, were built in 1934.

This disaster brought the Federal Government into the picture. First, under the Hoover administration, the Federal Home Loan Banks were set up to supply capital advances to home loan institutions. Under the Roosevelt administration, to stem the continuing defaults, the Home Owners Loan Corporation was created to put Federal funds behind distressed mortgages; first interest, and then both interest and principal, were insured.

Also in the mid-1930's, the Government invested about \$275 million in federally chartered savings and loan associations, insuring depositors against loss. The whole structure of home financing was purified. The "balloon payments" at the end of the mortgage term (which posed such an unmanageable financial burden on the poor purchaser) were eliminated by amortizing the principal in regular payments over the life of the loan. Interest rates were reduced.

Both homeowners and lenders who held the mortgages were substantially aided by these Government measures, and hence by the taxpayers. Strangely the same economic middle class which then received these benefits, and in large measure still does, often forgets its debt to society; many of its members are frequently in the forefront of opposition to housing programs designed to help less fortunate Americans.

While the Government kept a significant number of Americans from losing their homes through the policies described, the hoped-for recovery of the housing market did not occur. Financial institutions handling the mortgages were stabilized, but they were still fearful of making home loans for which they might not be repaid. In 1935, to stimulate construction and homeownership, the Federal Housing Administration was created to provide more direct support for those wishing to acquire homes by

insuring their mortgages under certain circumstances.

Despite rising building costs and interest rates, the pattern of FHA mortgage financing has enabled many more families, and many with lower incomes than formerly would have been in the market, to become homeowners. They have become debt-encumbered, to be sure, but homeowners nevertheless. The chief means of achieving this end have been (1) reduced downpayment requirements, and (2) extended mortgage life.

Mortgage financing has grown to vast proportions. As table 1 shows, there was a doubling of mortgage debt in the 9 years noted.

TABLE 1.—TOTAL MORTGAGE DEBT IN NONFARM 1- TO 4-FAMILY HOUSES

	Billion
1958 -----	\$118
1964 -----	198
1967 -----	236

While there are still some individual lenders, the bulk of the mortgage business is institutionalized. The FHA does not make direct loans to borrowers, but rather insures the mortgages extended by institutions. The same is primarily true of mortgages insured by the Veterans' Administration. Mortgages extended by private lending institutions without recourse to either FHA or VA are called "conventional financing."

*Interest rates, length of term, downpayments—some relationships*

The discussion of housing costs in part V, chapter 1, describes how the total and monthly costs of housing vary with changes in interest rates, length of the mortgage term, etc.

Table 2 shows that while the average cost of homes rose 52 percent in the 13 years from 1952 to 1965, the downpayment to the average buyer decreased by about \$1,800 because FHA was insuring a larger percentage of the mortgage.

TABLE 2.—AVERAGE HOME COSTS AND DOWNPAYMENTS

Year	Average cost of home	Down payment required (percentage)	Cash outlay for downpayment (rounded)
1952-----	\$11,300	27.0	\$3,100
1965-----	17,200	7.4	1,300

Monthly payments were reduced by extending the life of the mortgage from 20 to 35 years.

Rising interest rates tended to offset these reductions to the home buyers. They added to the initial cash outlay, insofar as points had to be paid to the lender to compensate for his acceptance of an FHA loan at a legally set interest rate below the market rate. Rising interest

rates also added, of course, to monthly charges and to total interest charges.

Successful attempts to lower downpayments and monthly charges were thus accomplished through Government programs by saddling the buyer with more future debt and higher total interest payments. The interest payments were rationalized as (1) compensation to the lender for the owner's inability to make a 100 percent cash outlay for the house at the purchase time, or as (2) the owner's charge for the privilege of using the house on credit, while he is earning and saving to pay the full cost.

*Conventional, FHA and VA financing: How they share the mortgage market*

Conventional financing provided for 23 million, or 65 percent, of the 30.6 million new housing units built from 1946 through 1967. Mortgages insured by the Federal Housing Administration have financed 4.4 million new units, or approximately 15 percent of the total, since World War II, while Veterans' Administration guarantees have helped to provide nearly 2.9 million new housing units for veterans, or a little more than 9 percent of the total. The two together have assisted in the building of 7.3 million new housing units, or 24 percent of the total.

Government guarantees in one form or another, therefore, helped to stimulate nearly a quarter of the new housing units during the period of 1946 through 1967. The same three methods—FHA, VA, and conventional financing—also operated in the purchase and the improvement of existing housing.

THE FEDERAL HOUSING ADMINISTRATION

*Capsule summary*

In essence, the FHA has been a mortgage guarantee program.

The guarantee does not go to the home buyer. If he fails to meet his payments, the FHA does not bail him out. He loses his home. The guarantee is given to the lender, assuring him of repayment even if the borrower defaults.

FHA thus bolsters the lending institutions, permitting them to make practically risk-free loans on new and old homes, and on home repair work.

FHA helps home buyers indirectly; first, by encouraging lenders to make mortgage loans; second, by helping to bring about lower downpayments; and third, by inducing lower monthly payments. These benefits to borrowers have been accomplished over the years as FHA has insured or guaranteed an increasing portion of the cost of the home and has applied this guarantee to mortgages for which payments could



be stretched out over an increasing period of years.

FHA thus, also indirectly, supports the home-building industry by providing a credit instrument that greatly expands housing production and consumption.

The FHA pattern of benefits stems from (1) the depression era from which it emerged; (2) the various changes over the years, such as the congressional mandates, the housing desires of the public, the suburbanization of the metropolis; and (3) the administrative policies within FHA itself.

As will be discussed in more detail below, the chief beneficiaries of FHA have been the middle-income home buyers, the suburban areas of the cities, the well-to-do insofar as they are among the lenders and builders, and a sparse number of the poor and near-poor.

#### *FHA policies on interest rates and mortgages*

The original FHA program in 1935 not only guaranteed the safety of marginal loans which otherwise might not have been made, and hence stimulated a great flow of funds into construction and homeownership, but also aimed to improve conditions for the ultimate borrower. One method was to reduce the amount of the required downpayment by providing that home mortgages could be insured in a mutual mortgage insurance fund for up to 80 percent of the value of a property. This was an increase of 15 percentage points over the conventional method, and cut the downpayment from 35 to 20 percent. In order to confine these benefits to those in moderate circumstances, maximum limits were placed on the amount of the mortgage that would be insured. To protect the ultimate borrowers (as well as the lenders), it was provided that a new house thus insured would have to meet minimum standards of construction. Interest rates were not to exceed 5 percent, but might vary between this ceiling and a floor of 4 percent as the FHA might decide.

Originally the length of the mortgage was not to exceed 20 years, and the required monthly payments were to amortize the mortgage principal along with the payment of interest on the outstanding unpaid balance over the life of the mortgage.

Some of the major changes in the FHA formula over the years may be noted:

- 1934—80 percent of value guaranteed (leaving 20 percent to pay as downpayment). Interest rate maximum of 5 to 5.5 percent. Terms, 20 years.
- 1938—Percentage of value guaranteed raised to 90. Term increased to 25 years.
- 1948—Guarantee on first \$6,000 of value increased to 95 percent. Term increased to 30 years.

1950—During Korean War, credit controls tightened. Terms limited to 25-year maximum.

1954—Guaranteed amount, 90 percent of first \$9,000 of value. Term returned to 30 years.

1957—Guaranteed amount raised to 97 percent of first \$10,000, with maximum interest rate of 5.25 percent.

1961—Term increased to 35 years.

1965—Full 100 percent of first \$15,000 (requiring no downpayment for a house of that value or less), plus 90 percent of next \$5,000, available for veterans only.

1966—Same 1965 terms extended to nonveterans.

1968—Maximum interest rate set at 6¾ percent.

The limits on percentage of value which could be mortgaged, the length of time the mortgage could run, and the interest rate are all maximums, so the FHA and its local agencies have had considerable discretion in tailoring the mortgages of individual borrowers. But the ceilings have come to be norms, and the general terms available are roughly in accord with the raised ceilings.

The sliding scale used for guaranteeing the mortgage amounts worked out in 1961 was as follows: 97 percent on the first \$15,000, 90 percent on the next \$5,000, 80 percent on the rest (all values over \$20,000). This is illustrated in table 3 for a \$25,000 house.

TABLE 3.—FHA MORTGAGE SCALES

Increment of value of house	Rate of downpayment (percent)	Amount of downpayment
\$15,000	3.0	\$450
5,000	10.0	500
5,000	20.0	1,000
25,000	7.8 <sup>1</sup>	1,950

<sup>1</sup> On total.

The steady liberalizing of the percentage of insurable value was intended to make it easier for the lower and middle income sections of the middle class to afford the downpayments, and hence to increase the effective demand for housing. The FHA also was under pressure to match the lower downpayments for veterans available under VA loans.

#### *Interest rates and points*

The Congress, because of suspicions of bankers dating back to depression days, set legal interest ceilings so mortgage lenders could not take advantage of the Government's guarantees against loss and charge interest at higher than a truly competitive rate. But the market or competitive rates tended to rise faster than the legally set rates. The market rates rose from 4.6



to 5 to 5.8 percent and, starting in 1966, to 6 and 6.8 percent and higher.

Congress authorized higher ceilings, but if these ceilings were not as high as the market rate, it was impossible to get mortgage money without paying big discounts or points. Points are an advance payment of interest (paid at the time the mortgage loan is made) to provide the lender with the difference between the statutory interest rate ceiling and the market rate. The effect of the points charged to the seller was to have this amount added to the price of the house, or, if charged to the buyer, added to the price of the downpayment, in either case defeating the attempt to make home purchases more attractive.

Consequently, Congress finally removed the legal ceiling in 1968 and allowed the Secretary of HUD to fix the maximum legal rate in accordance with what he believed market conditions to be. He immediately raised the rate to 6¾ percent, when the yield on FHA new home mortgages was as high as 6.94 percent. Elimination of the artificial ceilings, it was hoped, would bring about the disappearance of points or other artifices by lenders to equate FHA loans with the market as a whole.

#### *FHA insurance premium*

FHA charges a mortgage insurance premium of one-half of 1 percent<sup>1</sup> on the outstanding unpaid balance of the principal. This diminishes with time as more and more of the fixed monthly payments are devoted to reducing the debt. All the administrative and operating costs of the FHA are paid out of this fund, as are losses from defaults and foreclosures. The average outstanding balance on the individual homes is shown in table 8.

#### *Volume of insured FHA mortgages*

The total of all loans insured by FHA during 1967 was \$67.8 billion, but since \$10.4 billion was amortized, the amount in force at the end of 1967 was \$57.4 billion. Of this, the standard one- to four-family home mortgage (sec. 203) accounted for \$42.5 billion, or about 75 percent.

The total volume in December 1966 of all mortgages was \$224.4 billion on one- to four-family units and \$39.5 billion on multifamily apartment dwellings.

FHA insured in all varieties about \$44.8 billion of the one- to four-family mortgages, four-fifths of which was distributed in 1965 as shown in table 4.

#### *Foreclosures*

During the 1940's and early 1950's, there were relatively few serious defaults on FHA mort-

TABLE 4.—DISTRIBUTION OF FHA-INSURED LOANS

Type of institution	Amount of home loans (1-4 units) insured (billions of dollars)	Percent of total amounts insured by FHA
Mutual savings banks.....	\$12.7	28.3
Savings and loan associations.....	5.2	11.6
Insurance companies.....	11.0	24.6
Commercial banks.....	6.5	14.5
Total.....	35.5	79.0

Note: For a discussion of how these institutions operate in the capital markets, see pt. V.

gages. There was still a relative shortage of housing, and a low vacancy rate. This made purchasers very anxious to hold on to their homes and determined not to lose them because of any failure to keep up the required payments. The requirement of a 20-percent downpayment meant also that they had made a considerable personal investment which they naturally did not want to lose. Moreover, the 20-year duration of the mortgage meant that after a few years they were adding substantial amounts to their equities. All this increased their desire to hold on. In addition, real estate values were rising, and, with each year, their houses were worth more.

Thus, up to 1957, there had been a total of 4.7 million homes insured under the FHA program, but only 32,400 family units—0.78 percent—had had their mortgages ended as a result of a default in payments. The total number of defaults for 1956 was only 5,400 and the rate remained comparatively low up to 1960.

Default terminations and foreclosures have been more severe in the case of multifamily housing mortgages. Of the 1.2 million housing units included in all forms of insured multiple dwellings through 1967, no less than 141,800, or 11.5 percent, have suffered default terminations. This was between three and four times the cumulative percentage for single-family homes. The cumulative foreclosure rate for section 207 rental unit mortgages was 12.5 percent.

#### *Some facts about insured individual homes and their financing*

In 1952, the average acquisition cost of an FHA-insured home was \$11,300. The average mortgage was \$8,300, or 73 percent of the price. By 1960, the average acquisition cost had risen to \$14,900, and the mortgage to \$13,600, or 91 percent of the price. By 1967, the average acquisition cost had gone up to \$19,000, upon which the average mortgage was \$16,910, or 89 percent. Because of reductions in downpayments, the percentage of the acquisition cost which the purchaser had to invest fell from 27 percent in 1952 to 9 percent in 1960 and to 7.4 percent in 1965. The average length of the

<sup>1</sup> Not less than one-quarter of 1 percent nor more than 1 percent, but averaging one-half of 1 percent.

mortgage was extended from 21.7 years in 1952 to 29.8 in 1965, a lengthening of more than 8 years (see tables 11 and 12).

The increase in the cost of a home was caused by the rise in both building and land prices. The cost of the average site of FHA-insured homes increased from \$1,227 in 1952 to \$1,887 in 1956 to \$3,777 in 1967. This amounted to an increase of more than 50 percent in the 4 years between 1952 and 1956, and to a further increase of slightly more than 80 percent in the next 11 years to 1967. The average increase in land costs during the 15 years was a little more than \$2,200, or nearly a tripling, and in relative costs from 12 to 20 percent of the total cost of the house. This roughly agrees with the careful estimate from the Commission's research of an increase of 100 percent in bare land values between 1956 and 1966, as revealed in the Commission's Research Report No. 12 by Allen D. Manvel et al.

It is also true that the quality of the purchased new home was being improved. Thus, between 1952 and 1967, the average number of rooms rose from 4.8 to 5.9, with an increase in the average number of bedrooms from 2.6 to 3.2. The size of the average new house increased from 968 to 1,216 square feet, or a gain of approximately 25 percent. An additional bath was being included in more houses, until in 1956 this characterized two-thirds of the total. Wall-to-wall carpeting was increasingly included.

In addition to the new homes, an ever larger number of existing homes were changing hands under FHA-insured mortgages. In 1952, the older homes cost slightly more than the new houses, but by 1965 they averaged \$2,700 less. Part of this was due to the fact that in 1952, the older houses, averaging, as they did, 1,060 square feet, were 15 percent larger. But by 1967 they were just about the same size. The newer houses were growing up to them and the older homes were no longer overwhelmingly in the pre-1929 class.

In the main, the older houses seemed to have about the same facilities as the new, except that 43 percent of them had basements, as contrasted with only 23 percent of the 1967 crop of new houses. The lengths of the mortgages on the older houses were, as one might expect, somewhat shorter than for the new homes, but not markedly so—only 1½ years less, on the average. The interest rates showed little difference. In 1967, the average rate charged by the savings and loan association was 6.46 percent on new housing and 6.49 percent on existing homes.

In addition to the standard section 203 insured mortgages, many other home purchase insuring plans for individual homes were created.

During the 1940's, 626,000 new homes were built under section 603 for servicemen, while during the Korean war 72,000 more were built to serve workers in the defense industries. Between 170,000 and 180,000 other individual homes have been financed under various FHA programs.

In 1965, 75 percent of the new homes insured were frame, as were 83 percent of the existing homes, while 24 percent were of masonry. Of this latter group, 2.5 percent were brick or stone, and 8.2 percent either stucco or concrete. Of the new homes, 7.4 percent were factory fabricated, and 24 percent were air conditioned.

### *Multifamily rental projects*

In addition to the single-family homes, 1.1 million units, or a little less than one-fifth of the number of insured individual homes, were built from 1935 to 1967 under FHA mortgages in multifamily rental projects. Under section 207 (which is to multifamily rental properties what section 203 has been to home purchase), mortgages are insured on loans of up to 90 percent of an appraisal not to exceed \$20 million for a project. There are limitations on each project according to the number of bedrooms, ranging from \$9,000 for efficiency apartments (no separate bedrooms) to \$21,000 for units with more than three bedrooms. To be eligible for this multifamily insurance, a rental project must contain at least eight apartments. There are three main types of these multifamily dwellings—walkup apartments, generally running up to four floors or three flights of stairs; apartments served by elevators, ranging generally from five floors and up; and row housing, now generally called townhouses, where sidewalls serve adjoining houses and where the land space per unit is markedly less. Under this program, 230,000 units were built by the end of 1966 and 63,000 more were proposed in 1967.

The section 207 apartment house program had been preceded after World War II by section 608, which provided mortgage financing for war workers and veterans. While this act was repealed in 1954, it provided during its life for 446,000 units. Rental projects for the armed services were also furnished during the 1950's by section 803, which accounted for the construction of another 203,000 units. By this device the capital cost of military housing was transferred from the public treasury to private capital, and hence did not show up in the official budget. But the Government guaranteed the payment of sufficient rentals to yield an adequate return.

In 1954, section 220 was enacted to provide for the rehabilitation of rental housing and the construction of new apartments if they were located in urban renewal areas. Some 55,000 units have been built under this program.



There are various other rental programs such as those for cooperatives (sec. 213), for non-profit organizations (sec. 221), for condominiums and for the elderly (sec. 231), and for nursing homes. In all, about 1.2 million rental housing units have been insured by FHA.

In 1950, these multifamily units averaged 67 apartments to a project, but half of the projects had less than 31 apartments. By 1966, the average had nearly doubled to 125, while the mid-point had more than tripled to 101.

Accompanying this increase in size was a decrease in the relative number of walkup apartments and rowhouses. Thus in 1950, 75 percent were walkups, and 23 percent were rowhouses of single-family units. But by 1965 these had decreased to 39 and 8 percent, respectively. The proportion in the elevator class had, on the other hand, gone up from 2.4 to 53 percent. These trends appear to be reversing; in 1967, walkups accounted for 62 percent of the projects and rowhouses 12 percent.

The average number of rooms per apartment in 1967 was 3.9, but 7.6 percent were efficiencies, 54 percent had only one bedroom, and 37 percent had two. Only 2 percent had three or more bedrooms. These apartments were certainly not for large families, and tended to be either for single persons or couples without children or with only one child. The average mortgage per unit had been only \$6,366 in 1950, but this had risen to \$16,133 in 1967, which was not far from the average mortgage on the single-family house. The mortgages were between 89 and 90 percent of the "value."

The value of the land used per apartment in 1967 averaged only \$1,438, or about \$2,000 less than in the case of single-family homes. Even though apartment houses might be on more expensive land, the many units kept unit costs down. The costs were about \$200 less for walkups than for the elevator type, and \$300 less than for the single-family rowhouse type.

### *Home improvement*

In addition to providing loan insurance for the construction and purchase of homes, FHA has insured no less than 28.6 million home-improvement loans. These have amounted to a total of \$18.2 billion, or an average of about \$640 for each loan. In the third quarter of 1967, insured loans which were outstanding amounted to \$1.27 billion. While the administration of these loans has been somewhat loose and abuses have developed, they have in the main served constructive purposes. Structures have been improved by the use of siding, they have been restyled, bathrooms and air conditioning installed, and many other improvements added. Congress tried to check some of the abuses by outlawing

the use of FHA loans for barbecue pits, swimming pools, tennis courts, etc. But the records show that many unscrupulous dealers and finance companies have charged poor families excessive sums for little needed improvements. They have saddled the borrowers with financial instruments upon which they have realized usurious sums, or through which they have taken possession of the homes in foreclosure actions.

### A GENERAL APPRAISAL OF FHA

Within its limits, FHA has performed well. By insuring a large portion of the appraised value, it greatly diminished the amount of down payment required. Recourse to costly second mortgages in this field was reduced. It made first mortgages more attractive and increased the amount of capital invested in them.

As the proportion of the appraised value which is insured has risen to well over 90 percent, the amount of the down payment has, of course, been correspondingly reduced. With risks reduced and payments lower, millions of young families have enjoyed homeownership at a much earlier age, and have been able to bring their children up in what we like to think of as the conventional American manner.

An increasing proportion of home purchase money was being financed on credit. Financial institutions in effect were possessing a larger share of the value of the house. Homeownership was expanded by letting the "owner" become more of a renter.

FHA has also been a vital factor in financing and promoting the exodus from the central cities and in helping to build up the suburbs. That is where the vast majority of FHA-insured homes have been built. The suburbs could not have expanded as they have during the post-war years without FHA. Superhighways constructed at Government expense have also opened up the areas outside the cities and supported the exodus of a large proportion of the white middle class.

By prescribing minimum standards of construction, including toilet and hot water facilities, and by discouraging the use of shoddy building materials, FHA has lessened the possibility that the new suburbs would soon turn into slums. At the same time, while it did not enthusiastically embrace new methods of construction and materials, it has been more receptive to them than have most of the building code writers and officials of the central cities. For example, FHA permitted Romex and plastic pipe when these new products were effectively forbidden by most codes. FHA actions in this respect have been beneficial.



Taking all factors into consideration, it is difficult to see how any institution could have served the emerging middle class more effectively than has the FIIA and its counterpart, the Federal home loan bank systems. Most important, FHA helped to end the practice of letting the big final payment of principal come due at the end of the mortgage term, supplanting this with amortization of this amount over the life of the mortgage. It has brought consumer protection into the entire mortgage field, with conventional lenders following FHA's lead. For example, interest is only computed on the amounts actually owed. Many investors and lenders have been influenced by FHA to moderate their terms as regards interest, down payments, and length of mortgages. All of these steps have brought in more purchasers among the lower and middle sections of the middle class.

#### *The decline in the relative volume of FIIA insurance*

Yet, despite its constructive services, it became apparent that FHA was becoming relatively less important. This is shown by table 13, which gives the number and proportion of homes started under FHA-insured mortgages from 1935 to 1966. This includes both single-family homes and rental apartments but excludes used or existing homes.

During the 20 years from 1935 to 1954, FIIA insured 3.76 million homes, or almost 23 percent of the 16.57 million that were built. The proportion dropped to 14 percent in 1957, but revived to 22.5 percent in 1958. By 1963, it had fallen to 14 percent, and remained below that proportion through 1967. (See also table 14, in which different statistics show the same trend.)

No one has given a fully satisfactory reason for this decline, but it was probably due to the fact that such lending institutions as savings and loan associations, savings banks, and insurance companies were being given more money to invest by depositors and were themselves moving more aggressively into the real estate field. Savings deposits in commercial banks were also rising rapidly. All these institutions were increasingly willing to make mortgage loans without being insured against loss. In this way, the borrower saved the yearly insurance premium of one-half percent a year of the outstanding value of the mortgage.

#### *What FHA has not done*

The main weakness of FHA from a social point of view has not been in what it has done, but in what it has failed to do—in its relative neglect of the inner cities and of the poor, and especially Negro poor. Believing firmly that the

poor were bad credit risks and that the presence of Negroes tended to lower real estate values, FHA has generally regarded loans to such groups as "economically unsound." Until recently, therefore, FHA benefits have been confined almost exclusively to the middle class, and primarily only to the middle section of the middle class. The poor and those on the fringes of poverty have been almost completely excluded. These and the lower middle class, together constituting the 40 percent of the population whose housing needs are greatest, received only 11 percent of FHA mortgages.

#### *Redlining*

This tendency to neglect the poor has been reinforced and partially extended by the FHA tendency to shun the central cities and concentrate on the suburbs. The experience of members of the Commission and others convinced us that up until the summer of 1967, FIIA almost never insured mortgages on homes in slum districts, and did so very seldom in the "gray areas" which surrounded them. Even middle class residential districts in the central cities were suspect, since there was always the prospect that they, too, might turn as Negroes and poor whites continued to pour into the cities, and as middle and upper-middle income whites continued to move out.

The result was a general, even if unwritten, agreement between lending institutions and FIIA that most of the areas inside the central cities did not have a favorable economic future, and that their property values were likely to decline. Each group blamed the other for the failure to help the cities. Apologists for FHA asked how could they be expected to insure mortgages if the lending institutions would not lend. The lending institutions asked how could they be expected to lend if the FHA would not insure the mortgages. Each passed the buck to the other.

A third set of institutions, the fire insurance companies, was drawn into the circle of mutual alibis, for there were certain sections of the cities, notably the Negro slums, where insurance

TABLE 5.—PURCHASERS OF FHA HOMES IN 1965, BY INCOME CLASS

Income class	Income range	Percent of FHA mortgages
Poor and near poor.....	\$4,000 and under... 4,000 to 5,000.....	0.5 2.9
Total.....		3.4
Lower middle class.....	\$5,000 to \$6,000...	7.6
Middle and upper middle.....	\$6,000 to \$8,000... \$8,000 to \$10,000... \$10,000 to \$15,000...	30.0 26.0 27.0
Total.....		83.0
Well to do.....	\$15,000 and over...	6.0

companies would not insure against fires. The sad experience of the last 2 years of burnings may be seen by some as proving that this refusal had a solid basis. But the years of neglect of these districts by FHA, by lenders, by insurers, and often by local governments (especially in terms of low levels of community services and facilities), must be listed among the causes for the eventual urban conflagrations. Redlining by insurers weakened still further the ability of the slums to obtain loan capital with which to improve existing housing or to construct new units.

There was evidence of a tacit agreement among all groups—lending institutions, fire insurance companies, and FHA—to block off certain areas of cities within “red lines,” and not to loan or insure within them. The net result, of course, was that the slums and the areas surrounding them went downhill farther and faster than before.

### *Segregated housing*

For many years FHA operated with the conventional racial prejudice characteristic of many middle class real estate men. The agency's original personnel was primarily recruited from this group in the 1930's. Until 1948, when restrictive covenants or written agreements not to sell to Negroes were declared unconstitutional by the Supreme Court, FHA actually encouraged its borrowers to give such guarantees and was a powerful enforcer of the covenants. The FHA definition of a sound neighborhood was a “homogeneous” one—one that was racially segregated.

FHA's segregation position cannot be defended by any current standard of what is right for the home, the neighborhood, the city, or the Nation (although it may be understood in the context of the Nation's overall backwardness in race matters at the time FHA policies were forged).

Yet the FHA had a strong case for its economic conservatism which, in all fairness, needs to be stated and understood. Defaults by homeowners on mortgage obligations prior to 1960 were, as we have seen, originally very low. By 1950, out of 2.5 million home mortgages, 15,300 had gone into what is known as termination default, the step just prior to foreclosure, and these losses were amply covered by the insurance reserve. In the next 10 years, up to 1960, 35,600 more went to default out of an additional 3 million insured mortgages. While the cumulative defaults had increased to a total of nearly 51,000, the number of total mortgages insured had also increased to about 5.6 million. The overall default rate had risen slightly to 0.9 percent,

still relatively low. Financially, FHA remained in a very sound and solid position.

Meanwhile FHA was failing to reach lower income families, central city residents and Negroes. It had not, in fact, been designed especially to help these groups. Also, the suburban trend originally had not been clearly foreseen. FHA managers could, therefore, claim that they were following both the letter and the intent of the original 1934 act. As restrictive FHA policies were subjected to the pressure of increasing public and congressional criticism, the standard for some lending was changed from economic soundness to reasonable risk. As a result, FHA did relax its policies to some extent. It did not venture into the slums and gray areas of the central cities, but it did insure the mortgages of some of the weaker suburban subdivisions and of financially dubious individual homes in the suburbs. Unfortunately, the number of terminal defaults rose more rapidly than the number of insured mortgages.

By computing defaults as a percentage of the cumulative total of insured mortgages, FHA was able to show that the total record was still not alarming. But this understated the risks inherent in the new mortgages, since it included the full volume of the past mortgages which had been made to stable income elements. Thus, the cumulative default average rose from 0.9 percent in 1960 to 3.7 percent in 1967. But on the basis of the *rate* at which additional defaults occurred from year to year as compared with the increase in the number of insured mortgages, the increase was much more startling. It went from 2.16 percent in 1960 to 8.1 in 1965. These figures, of course, overstate the risk factor in new loans since a considerable, although unknown, proportion of defaults occurred on mortgages which had been previously insured. The truth about the relative safety of the new loans, therefore, lay somewhere between the cumulative average and the incremental. But by either standard, a great increase in risk showed up at the same time that the insurance criteria were being liberalized. No one quite knew at the time what the actual net losses were because when FHA resold the properties which had been foreclosed, it realized large sums which were credited as an offset against the reimbursement on the mortgage. Until now, the losses have not been made public.

At the Commission's request, FHA has computed the net losses, and these are shown in table 6.

In terms of casualty losses, these percentages and dollar amounts are not startling, since an insurance fund cannot be expected to operate without losses.



TABLE 6.—FHA LOSSES AS A PERCENT OF TOTAL FHA INCOME

[Dollar amounts in millions]			
	(1)	(2)	(3)=(2)÷(1)
Fiscal year	Total income	Total losses	Percent which losses form of total income
1954.....	\$128.5	\$41.4	32.2
1955.....	143.4	36.2	25.2
1956.....	151.4	40.4	26.7
1957.....	153.6	35.9	23.4
1958.....	164.8	19.2	11.7
1959.....	190.7	11.4	6.0
1960.....	213.3	36.7	17.2
1961.....	239.9	50.2	20.9
1962.....	262.4	69.9	26.6
1963.....	288.1	133.5	46.3
1964.....	286.7	212.6	74.2
1965.....	332.8	175.4	52.7
1966.....	318.6	192.7	60.5
1967.....	322.0	133.3	41.4

However, a group of financially conservative Members of Congress, though unaware of the full extent of the losses, was frightened by the increased number of foreclosures. This group, therefore, demanded greater caution in insuring. On the other hand, congressional liberals, seeing the deterioration of the central cities, and also unaware of FHA losses, wanted FHA to take more chances and to help rebuild at least the gray fringes of the central cities. FHA was caught between two fires. It was damned if it did and damned if it didn't. Such losses as FHA incurred were greater on the section 207 insured loans for apartment and multifamily units than under the single-family homes insured under section 203. Thus, while 3.4 percent of the single-family homes had to be taken back by FHA because of a default in payments, no less than 11.6 percent of the multifamily units met the same fate.

Its new losses, however, were not really in the central cities. There was little insuring going on there. It was rather in the so-called inferior subdivisions in the suburbs, where the loans were going sour. After the Watts riots and again during the widespread riots of 1967, FHA was again accused of being too conservative, and once again those who felt FHA should have a social as well as a business purpose urged it to insure in the gray and slum areas of the inner cities. In the summer of 1967, the regional directors of FHA and important local representatives were summoned to Washington and told by the head of FHA that they should be more receptive to such mortgages and should look favorably on the various special assistance programs. There has not been time enough to determine how the new program is working out, but there seems to be evidence that FHA has, on the whole, tried to meet the criticisms leveled against it and to follow the instructions of its chief. Whatever its sins in the past, there is little one can criticize about its recent national

leadership. Whether this will continue in the future is an open question. It depends on public opinion and on Congress. Certainly there remain deep pockets of resistance to liberalizing policies within regional and local staffs.

All this raises the question of whether the present FHA reserves are adequate. The record for the last few years shows a somewhat diminishing ratio, but one which would seem to be adequate for the immediate future. From a strictly actuarial point of view, however, it was computed in 1966 that there was an overall deficit of \$417 million in the combined accounts, or of \$865 million including the surplus of \$448 million on the long-discontinued war housing.

In 1968, Congress acted decisively to clear up some of the doubt about its intent on FHA policies. In section 102 of the Housing Act of 1968, FHA was authorized to issue insurance to those families with low and moderate incomes who could not qualify for existing FHA programs because of their past credit histories or irregularities in their incomes. Preference was to be given (1) to families living in public housing, and especially to those forced to leave because their incomes had risen above the maximum prescribed by the local housing authority; and (2) to those eligible for public housing who had been displaced from urban renewal areas. This was a cautious though limited opening of the door.

Two other provisions may have liberalized the longrun possibilities for FHA insurance. The National Housing Act was further amended to permit FHA to insure mortgages which would permit the repair, construction or purchase of properties in older and declining urban areas which could not meet all the normal eligibility requirements because of the nature of their areas. The standards of "acceptable risk" were to be broadened to include the need for acceptable adequate housing for low- and moderate-income families. The provisions in section 203 which had been interpreted to prohibit such loans were repealed.

It was admitted that these new risks as well as those assumed for homeownership and rental and cooperative housing might not be actuarially sound. Instead of loading down the existing insurance fund with these obligations, a new "special risk insurance fund" was set up which would meet the claims under these programs and which would be furnished with an initial advance of \$5 million from the general insurance fund, with future losses over receipts to be met by congressional appropriations.

The Congress is to be congratulated for these forward steps. It is now squarely up to FHA to carry out the clear intent of liberalization. The groups inside FHA can no longer argue that



they cannot move because Congress does not want them to do so. The scrutiny of Congress and the country should be turned upon FHA to see if it carries out the will and intent of Congress.

If we were to have a severe depression with an attendant collapse of real estate values, comparable to that which we experienced from 1929 to 1934, the FHA reserve would probably not be adequate. The system would then have to fall back upon the Treasury to make good any large deficit. This would be a practical, although not a legal, obligation. This, as a matter of fact, has always been assumed not only for FHA and VA guarantees but also for the Federal Deposit Insurance Corporation and for homeowners loan insurance. It is this assumption, in fact, which has given added public trust to the insurance guarantees.

#### THE VA HOUSING PROGRAM: A GENERAL APPRAISAL

The housing program for veterans was originally intended in 1944 and 1945 for those who had served during World War II, but it was later extended to include veterans of the Korean conflict. In 1955, it was allowed to lapse, but those who served after this date were included in 1966 by the GI bill of rights. In all about 6.8 million veterans have taken advantage of the housing features of these acts, which have been operated by the Veterans' Administration.

The VA program did not limit the amount of the guaranteed mortgage to some percentage of the total value of the home. Rather, it allowed mortgage lenders to make loans up to 100 percent of the purchase price, with VA insurance against any losses up to 60 percent of the amount of the loan, subject to a maximum cost to VA of \$7,500. This meant that the Government bore all of the burden of any loss within these limits. It was very rare for any such loan to lose more than 60 percent of its value, and the \$7,500 limit, moreover, at first provided full protection for a loan of up to \$12,500.

Later, as the cost of new and used houses increased above \$12,500, the \$7,500 limit operated to decrease the percentage of the price which would be guaranteed. In the early days, it was very rare for a veteran's house to cost more than \$12,500. This full guarantee made it possible to eliminate down payments. From the very beginning, the length of the mortgage or loan was 30 years, and this put pressure on FHA to establish a similar term.

From 65 to 70 percent of the loans to veterans were made for the purchase of existing and occupied houses, and about 30 to 35 percent for the construction of new homes. By the middle of 1968, the total of about 6.8 million guaran-

teed home loans had been made, of which 1.5 million were for those who served during the Korean war. About 40 percent of the World War II veterans had obtained their homes under VA guarantees or loans. About 20 percent of the Korean servicemen have obtained such help. Fully half of the current home loans are to ex-servicemen who would not have been eligible except for the 1966 act. They are primarily those who have served during the war in Vietnam. Private home loans under VA programs total \$70.6 billion, of which \$36.4 billion has been guaranteed.

While the major reliance for providing the necessary loan funds was placed on private financial institutions, the VA was authorized to make direct loans where satisfactory home loans were not available. These direct loans were primarily intended, however, for thinly settled regions, small towns, etc. It was difficult to persuade lawmakers and the public that poverty-stricken persons in the cities were also, in practice, not welcome at the loan window—even if they were veterans.

In all, a total of 274,000 direct loans for a total of \$2.5 billion had been made up to the end of 1967. The maximum amount of these loans was raised from \$15,000 to \$17,500 in 1966.

The maximum interest rate allowed in VA programs was initially 5 percent, but this was increased by steps in 1966 until it reached the ultimate legal ceiling of 6 percent in December. Even so, it did not keep pace with the market rate, and the result was an increase in the amount of the discount. This rose from 1.8 points in early 1964 to 6.4 points in December 1966. There was a decline in early 1967 as the market interest rate eased slightly, so that at midyear the discount amounted to only 3.3 points. But with the later increase in interest rates, the discounts rose again. These discounts increased the cost of housing to the borrowers, and the administration recommended in 1968 that the 6-percent statutory ceiling be removed and the administrator be given discretionary power to fix the interest rates above this rate in accordance with general conditions.

It might be expected that the foreclosure rate for veterans' housing would be much higher than for FHA. Because of the virtual elimination of down payments, it was argued, a financially less sturdy group would be induced to buy homes. Furthermore, the relatively small investment which the veterans would have in their homes would probably make them less determined to hold on to them. But if we consider the total period, the record has not been a bad one, and indeed, seems to be no worse than that of FHA. On a cumulative basis, there have been slightly more than 226,000 foreclosures, for a

THE FEDERAL NATIONAL MORTGAGE  
ADMINISTRATION—FANNIE MAE

combined average rate of 3.1 percent. But the ratio of foreclosures, to new loans has risen in recent times to about 12 percent, which is a relatively high figure. In some of the new suburban subdivisions populated primarily by veterans there are financial losses that are not yet fully reflected in the statistics. But the guaranteed loan program has made it possible for millions of veterans to acquire homes for their families and to enjoy a far happier life.

Because of the increase in building costs and values and the rise in desired standards, the cost of VA housing, like that of FHA, rose quite steadily. By 1967, more than two-thirds of the new homes that were being bought were priced above \$17,000, and one-third cost more than \$20,000. The value of the existing homes was, as might be expected, somewhat less, so that the combined average by the end of 1967 was \$17,600. This was nearly twice what it had been in 1950.

The rise in the cost of housing has, of course, made the maximum guarantee of \$7,500 much more restrictive. This now provides only about 43 percent of the average cost of \$17,000, and only 37.5 percent of the cost of a \$20,000 house. This would still seem to be a sufficiently safe margin. But in order to provide added protection, the administration proposed in early 1968 to increase the maximum to \$10,000.

There is no doubt that the VA guarantees made it possible for a much larger percentage of the lower middle class to buy homes. Here, again, the very lowest income group has been largely left out, since its members are unable to meet the costs of interest and amortization.

The distribution of VA mortgages by income category is shown in table 7.

TABLE 7.—DISTRIBUTION OF VA MORTGAGES BY INCOME CATEGORY

Annual income:	Percent of VA mortgages taken out in 1966
\$3,600 or less.....	1.6
\$3,600 to \$4,800.....	15.4
\$4,800 to \$6,000.....	29.0
\$6,000 to \$7,200.....	23.0
\$7,200 or more.....	31.0

By virtually eliminating downpayments, the VA apparently reached further down the income scale than did FHA. In all, slightly more than half of the home buyers were in the group whose incomes ranged from \$400 to \$600 a month, or from \$4,800 to \$7,200 a year. Since this group tends to form only about a quarter of the general population, it is clear that VA guarantees had been successful in providing home ownership for an economic group which had a very difficult time under conventional loans.

The Federal National Mortgage Association (FNMA or Fannie Mae) has had an interesting history. Originally, it was established as merely one of a number of national associations to buy and sell mortgages, and was made a subsidiary of the Reconstruction Finance Corporation. In 1948, it was made the sole such agency, and was authorized to deal only in FHA-insured or VA-guaranteed mortgages. Apparently its original justification was to do for these mortgages what the regional and Federal Land Bank system was doing for conventionally financed mortgages. It was supposed to purchase insured mortgages from areas where there was a deficit of real estate capital, and then sell them in areas where there was a surplus of savings. In this way, there would be a better geographical coordination of supply and demand. Fannie Mae was also intended to help stabilize cyclical fluctuations in home financing and construction; it would purchase mortgages in periods of recession, when there was a falling off in homebuilding and available capital, and then sell these in boom periods. In this way, it would help build up the valleys and lower the peaks of construction. In theory, FNMA was thus to be similar in structure and purpose to the commodity stabilization program of the Department of Agriculture, which was intended to provide an ultimate market for crucial farm commodities which, it was hoped, could ultimately be resold in other places and at other times.

For a considerable period of time, Fannie Mae was restricted to these functions. The idea that it might become a more-or-less permanent repository of private mortgages was ignored. But, like the Commodity Credit Corporation, its purchases came to exceed its sales, and a large residue came to rest in Fannie Mae itself. These mortgages had been purchased with Government funds, in return for which Fannie Mae had given notes upon which it was paying interest. It was a type of capital expenditure which in private business would not be charged off as an operating cost. But in the Federal budget, it was listed in the current administrative budgets as an expenditure which was not differentiated from ordinary operating outlays such as those for administration, national defense, veterans' benefits, and the like. The administrations of both parties were, therefore, sensitive to the amounts invested by Fannie Mae; any increase made them subject to criticism from those who tended to think of all Government expenditures as wasteful and who would not or could not distinguish between a current outlay that did not yield a financial return to the Government and one that did.



Fannie Mae, therefore, became charged with two additional functions: (1) to undergird the home mortgage market and, hence the construction of homes by indirectly furnishing additional Federal credit to build and purchase more housing units; and (2) to include publicly subsidized projects involving a mixture of private and public effort which could not be directly financed by the sale of bonds and mortgages to private investors. These latter included the indirect low-interest subsidies to cooperatives, nonprofit and limited-dividend projects under section 221(d)(3), and other types as well. By June of 1966, Fannie Mae had borrowed \$3.269 billion from the Treasury for its ordinary functions and another \$1.465 billion for its special assistance programs, making a grand total of \$4.732 billion.

Every administration became caught between the desire to expand housing, not only under FHA and VA mortgages, but also under conventional financing, and the desire to make a good budgetary showing before the general public. When the first purpose was dominant, more mortgages would be bought than sold, and the debt of Fannie Mae to the Treasury would increase, as would the outlays included in the administrative budget. When the second set of motives was strong, Fannie Mae would sell more mortgages than it bought and transfer a large share of real estate financing to the private sector. The administrative budget would then show a decrease by the approximate excess of sales over purchases. In a proper Federal accounting system, capital investments would, of course, be distinguished from current operations and Fannie Mae could pursue the public interest without regard to fictitious signals from the accountants.

Fannie Mae has published a consolidated income statement which shows that total earnings from February 1938, to the end of June 1967, was \$3.37 billion, of which all but about \$200 million was interest on the mortgages held.

On the expense side, Fannie Mae had paid the Treasury \$1.13 billion as interest on amounts borrowed and another \$1.06 billion as interest to private holders of notes and debentures. In effect, Fannie Mae was borrowing money at a lower rate of interest than it charged and made a surplus of \$1.18 billion on these differences. It reported that the total administrative costs for its nearly 30 years of operation amounted to only a little more than 3 percent of its total income. The fees paid out for servicing or collecting the interest and principal on the amounts due came to about 9 percent of gross income. Its total net earnings were \$626.8 million. On the whole, therefore, Fannie Mae has not been a financial burden to the taxpayers, and instead

has given a net yield. It has been of great help to the real estate finance industry and to FHLA and VA homeowners. It has pumped a large additional volume of public credit into the industry. It has benefited the middle class patrons of FHLA and the somewhat less affluent beneficiaries of the Veterans' Administration. It has benefited the poor and near-poor only to the degree that Congress and the Budget Bureau have given FNMA the authority to purchase mortgages under Federal programs which helped the less affluent. The number of housing units built under these programs is not high.

The suspicion is voiced by some that financial institutions may have unloaded on Fannie Mae some of the inferior FHA and VA mortgages. It is said that the existence of Fannie Mae has made it possible to increase the flow of funds to the poorer risks, who, on the basis of personal character and resources, might otherwise have been disqualified.

Under the 1968 Housing Act, FNMA has been made a private institution to deal only in private and not in publicly subsidized mortgages. The latter are to be taken over by a new institution to be known as the Government National Mortgage Association (GNMA or "Ginny Mae"). Ginny Mae will handle in the future the special assistance programs.

TABLE 8.—OUTSTANDING FHA GUARANTEED HOME MORTGAGE LOANS 1940-66

Year	Average outstanding balance (in billions of dollars) home mortgages	Contribution to insurance fund $\frac{1}{2}$ of 1 percent (in millions of dollars)
1940.....	2.0	11
1945.....	4.2	20
1950.....	8.0	40
1955.....	13.5	68
1960.....	25.2	126
1961.....	28.1	140
1962.....	30.9	155
1963.....	33.6	168
1964.....	36.5	182
1965.....	40.0	200
1966.....	43.9	218

Source: 1965 report of Secretary of HUD, p. 39. Note 666,000 of these were wartime units built under sec. 603.

TABLE 9.—OUTSTANDING FHA GUARANTEED APARTMENT MORTGAGE LOANS, 1940-65

[In millions of dollars]		
Year	Average outstanding balance on apartment mortgages	Approximate contribution to insurance fund
1940.....	105	0.5
1945.....	240	1.2
1950.....	2,681	13.4
1955.....	4,051	20.3
1960.....	5,596	27.98
1961.....	6,160	30.80
1962.....	6,789	33.95
1963.....	7,368	36.84
1964.....	7,692	38.46
1965.....	7,976	39.88
1966.....	8,019	40.05

Source: 1965 report of Secretary of HUD, p. 137.



TABLE 10.—COMPARISON OF THE INCOME DISTRIBUTION OF PURCHASERS OF FHA HOMES IN 1965 WITH ESTIMATED INCOME DISTRIBUTION OF ALL FAMILIES IN THE UNITED STATES

Income class per year	Percentage of all families within income range 1965	Cumulative percentage	General economic class	Families buying single-family homes under FHA, 1965, with incomes—	Percent	Cumulative percentage
Under \$1,000.....	3.0	3.0	Abjectly poor.....	Less than \$3,600.....	(1)	-----
\$1,000 to \$2,000.....	6.1	9.1	Poor.....			
\$2,000 to \$3,000.....	7.4	16.5	Poor and near poor.....	\$3,600 to \$4,800.....	1.3	1.3
\$3,000 to \$4,000.....	7.8	24.3	Near poor.....	\$4,800 to \$6,000.....	8.0	9.3
\$4,000 to \$5,000.....	8.0	32.3	Lower middle.....	\$6,000 to \$7,200.....	17.0	26.3
\$5,000 to \$6,000.....	9.3	41.6	Middle and upper middle.....	\$7,200 to \$8,400.....	18.2	44.5
\$6,000 to \$7,000.....	9.3	50.9		\$8,400 to \$9,600.....	16.9	61.4
\$7,000 to \$10,000.....	24.1	75.0		\$9,600 to \$10,800.....	13.2	74.6
Over \$10,000.....	24.9	100.0	Relatively affluent.....	\$10,800 to \$12,000.....	9.3	83.9
				\$12,000 to \$13,200.....	6.6	90.5
Median, \$6,882.....				Over \$13,200.....	9.5	100.0
				Median, \$8,700.....		

(1) Less than ½ of 1 percent.

TABLE 11.—AVERAGE ACQUISITION COST FOR FHA SINGLE-FAMILY HOUSES, BOTH NEW AND EXISTING, FOR MOST YEARS FROM 1952 TO 1957

Year	New homes	Relative index 1952=100	Existing homes	Relative index 1952=100
1952.....	\$11,294	100	\$11,698	100
1953.....				
1954.....	11,185	99	12,578	107
1955.....	12,367	109	12,558	107
1956.....	13,752	121	13,274	113
1957.....	14,854	131	13,507	115
1958.....	14,596	129	13,446	115
1959.....	14,727	130	13,560	116
1960.....	14,939	132	13,579	116
1961.....	15,184	134	13,037	111
1962.....	15,485	137	14,507	124
1963.....	16,213	143	14,684	125
1964.....	16,564	146	14,900	128
1965.....	17,201	153	15,437	132
1966.....	18,002	159	15,501	133
1967.....	19,000	168	16,910	144

TABLE 12.—SIZE OF MORTGAGE AND OWNER'S EQUITY, FHA, 1952 TO 1967, SHOWING ABSOLUTE AND RELATIVE SIZE OF MORTGAGE AND DECREASE IN INVESTMENT BY PURCHASERS

Year	Average amount of mortgage	Percent of acquisition cost	Downpayment	
			Average amount	Percent of acquisition cost
1950.....	\$7,307			
1952.....	8,227	72.8	\$3,067	27.2
1954.....	9,038	80.8	2,147	19.2
1955.....	10,287	83.2	2,080	16.8
1956.....	11,164	81.2	2,588	18.8
1957.....	11,927	80.4	2,915	19.6
1958.....	12,759	87.4	1,837	12.6
1959.....	13,333	90.5	1,394	9.5
1960.....	13,611	91.1	1,328	8.9
1961.....	13,977	92.1	1,207	7.9
1962.....	14,352	92.7	1,133	7.3
1963.....	15,028	92.7	1,185	7.3
1964.....	15,362	92.7	1,202	7.3
1965.....	15,920	92.6	1,272	7.4
1966.....	16,690	92.7	1,312	7.3

TABLE 13.—CONVENTIONAL AND FHA FINANCING 1935-67

Year	Total United States non-farm units started—privately financed (in thousands)	Total FHA insured units (in thousands)	FHA insured as percentage of U.S. total
1935 to 1939.....	1,710	400	23.4
1940 to 1944.....	1,773	806	45.4
1945 to 1949.....	5,379	997	18.5
1950 to 1954.....	7,708	1,558	20.2
1955.....	1,627	277	17.0
1956.....	1,325	189	14.3
1957.....	1,175	168	14.3
1958.....	1,314	295	22.5
1959.....	1,495	332	22.2
1960.....	1,230	261	21.2
1961.....	1,285	244	19.0
1962.....	1,439	260	18.0
1963.....	1,582	221	14.0
1964.....	1,530	205	13.4
1965.....	1,483	197	13.3
1966.....	1,173	158	13.4
1967.....	1,299	180	13.9
Total.....	34,527	6,748	19.6

Source: Report Secretary HUD 1965. Housing and Urban Development Trends, January-February 1968, p. 6.

TABLE 14.—GOVERNMENT HOME PROGRAMS IN RELATION TO PRIVATE NONFARM HOUSING STARTS, 1946-67

[Units in thousands]

Year	Total private nonfarm units <sup>1</sup>	Conventionally financed		FHA <sup>2</sup>		VA		FHA & VA, percent of total
		Units	Percent of total	Units <sup>3</sup>	Percent of total	Units	Percent of total	
1946	1,015.2	856.3	84.4	67.1	6.6	91.8	9.0	15.6
1947	1,265.1	926.5	73.2	178.3	14.1	160.3	12.7	26.8
1948	1,344.0	1,055.8	78.6	216.4	16.1	71.7	5.3	21.4
1949	1,429.8	1,086.4	76.0	252.6	17.7	90.8	6.3	24.0
1950	1,908.1	1,388.7	72.8	328.2	17.2	191.2	10.0	27.2
1951	1,419.8	1,084.3	76.3	186.9	13.2	148.6	10.5	23.7
1952	1,445.4	1,075.0	74.4	229.1	15.8	141.3	9.8	25.6
1953	1,402.1	1,029.1	73.4	216.5	15.4	156.5	11.2	26.6
1954	1,531.8	973.9	63.6	250.9	16.4	307.0	20.0	36.4
1955	1,626.6	965.0	59.3	268.7	16.5	392.9	24.2	40.7
1956	1,324.9	870.8	65.8	183.4	13.8	270.7	20.4	34.2
1957	1,174.8	896.4	76.3	150.1	12.8	128.3	10.9	23.7
1958	1,134.2	941.8	71.6	270.3	20.6	102.1	7.8	28.4
1959	1,494.6	1,078.3	72.2	307.0	20.5	109.3	7.3	27.8
1960	1,230.1	929.8	75.6	225.7	18.3	74.6	6.1	24.4
1961	1,284.8	1,002.7	88.0	198.8	15.5	83.3	6.5	22.0
1962	1,439.0	1,163.9	80.9	197.3	13.7	77.8	5.4	19.1
1963	1,582.9	1,345.7	85.0	166.2	10.5	71.0	4.5	15.0
1964	1,502.3	1,289.1	85.9	154.0	10.2	59.2	3.9	14.1
1965	1,450.6	1,241.3	85.6	159.9	11.0	49.4	3.4	14.4
1966	1,141.5	975.6	85.5	129.1	11.3	36.8	3.2	14.5
1967 <sup>4</sup>	1,268.4	1,074.0	84.7	141.9	11.2	52.5	5.1	15.3
Total	30,596.0	23,240.4	76.0	4,478.4	14.6	2,867.1	9.4	24.0

<sup>1</sup> Does not include mobile homes.<sup>2</sup> Does not include military housing starts, even when financed with mortgages insured by FHA.<sup>3</sup> Units are for 1- to 4-family housing.<sup>4</sup> Preliminary.

Source: Economic Report of the President, February 1968, table B-41, p. 256.

## CHAPTER 3

# Public Housing

### HISTORY AND BACKGROUND

The beginnings of Federal Government action in peacetime housing in this country came during the great depression of the 1930's. Very little housebuilding or construction of any kind was underway. In 1925, at the peak of the housebuilding boom of the 1920's, almost 940,000 nonfarm housing units were put under construction. At the depth of the depression only a few years later, the number was less than 94,000—a drop of 90 percent. In addition, 12 to 14 million Americans were unemployed, incomes were low, and families were being forced to double up with friends and relatives.

One of the first acts of President Roosevelt when he took office in 1933 was to ask for and obtain an appropriation of \$3 billion for a program of public works, and to designate Secretary of Interior Harold Ickes to administer it. This program was intended primarily to give added employment to labor in the construction industry and to increase the demand for materials. In other words, public purchasing power was thrown into the breach to help offset the decrease in demand created by the decline in private purchasing power. But the projects were also intended to be useful and, where possible, ultimately productive of revenue. Very quickly the idea of building housing for low-income families, including the "depression poor," came to be considered. Great Britain had a successful Government-aided housing program that had been started soon after World War I. Pre-Hitler Germany's efforts had attracted wide attention in the Western World. Sweden and Vienna had made such experiments and Glasgow had started on it decades before Ickes followed suit.

Housing for the relatively poor was socially desirable. It was also an excellent kind of work with which to "prime the pump." Although the experiments in Western Europe undoubtedly furnished a stimulus, the formation and activities of the National Public Housing Conference (now the National Housing Conference) provided an additional drive. So, a little later, did the support of organized labor. After an un-

productive year in which the Public Works Administration offered to make loans and grants to limited-dividend housing corporations, it began to go ahead with direct Federal construction in 1934. If the localities welcomed it, so much the better; but if the localities were either indifferent or opposed, PWA still had the power to construct on its own—a power, however, that it did not have to exercise in the 3 years of its housing construction program. By 1937, some 22,000 houses were completed or started in approximately 50 projects.

### THE EVOLUTION OF HOUSING LEGISLATION

#### *Housing Act of 1937*

In 1937, the first of the specific public housing acts was passed.<sup>1</sup> It set up the U.S. Housing Authority and authorized it to make loans to local public housing agencies for up to 90 percent of the development cost of a project. To raise the funds for loans, the Authority could sell its tax-exempt bonds in amounts up to \$500 million, which was increased in 1938 to \$800 million. The Secretary of the Treasury was authorized to purchase Authority bonds.

The act of 1937 contained several provisions to assure that the housing it aided would be available to "families of low income," which were defined as "\* \* \* families who are in the lowest income group and who cannot afford to pay enough to cause private enterprise in their locality or metropolitan area to build an adequate supply of decent, safe, and sanitary dwellings for their use." Of these provisions, three were the most significant: (a) The Authority's aid was limited to projects costing not more than \$4,000 per dwelling unit or \$1,000 per room (excluding land, demolition, and nondwelling facilities) in cities under 500,000, and \$5,000 and \$1,250, respectively, in larger localities; (b) it could contract to make annual contributions to a local public housing agency in amounts not greater than the "going Federal rate of in-

<sup>1</sup> Public Law No. 412, 75th Congress, First Session, Chapter 596.



terest" plus 1 percent on development cost and for not more than 60 years. These annual contributions would be conditioned on local or State contributions "\* \* \* in the form of cash or tax remissions, general or special, or tax exemptions," of at least 20 percent of the Federal subsidy; and (c) in some circumstances it could make capital grants or subsidies instead of annual contributions. Capital grants were authorized for up to 25 percent of development cost with the proviso that the President could allocate unemployment relief funds for "payment of labor," up to an additional 15 percent.

The 1937 act also made two other significant changes in previous practices:

(1) The Federal Government removed itself from the direct construction and management of housing. The local communities, either through their local governments or through special housing authorities, were to decide whether or not they wanted to come under the program and, if so, how many housing units they wanted to build, etc. The properties were to be owned and managed by the localities. The U.S. Housing Authority could review the rents in order to insure that low-income families were being served and that the rents charged would be sufficient to meet all management, operation, and maintenance costs together with payments in lieu of taxes.

(2) The law required that the number of new housing units built must be matched by a "substantially equal number" of unsafe or insanitary units taken out of the housing supply by "demolition, condemnation, and effective closing," or rehabilitated by "compulsory repair or improvement."

This was called the principle of "equivalent elimination." In other words, public housing was not to add materially to the total number of housing units, but was merely to improve the quality of housing within a relatively fixed total supply. This fitted in with the concept that selective slum clearance was to be combined with public housing. By this clause, the two were made Siamese twins.

When the act was passed, grave doubts were felt as to whether local housing agencies could raise the 10 percent of development costs beyond the maximum Federal loan authorized. Although the financial position of municipal governments had improved somewhat since the depth of the depression, it seemed unlikely that many of them could raise substantial capital amounts for housing. The operating agencies, the local housing authorities, could issue bonds, but they were not backed by taxing power. As revenue bonds on a new public enterprise that depended heavily on Federal and local subsidies, they had no market. Congress had in-

sisted that the Federal loans could not be subordinated to the claims of other holders of local authority bonds.

One simple combination of facts changed this grim outlook. Under the terms of the act the rate of interest on Federal loans was 3 percent—a going Federal rate of  $2\frac{1}{2}$  percent plus one-half of 1 percent. The maximum annual contributions came to  $3\frac{1}{2}$  percent for 60 years. A 3-percent loan for 60 years required a level annual payment for interest and amortization of 3.61 percent. Thus the annual contributions were sufficient to cover all but a small proportion of the financial charges. Municipal bond houses and investors soon began to show some interest in local authority bonds. Backed by a Federal annual contributions contract, they were tax-exempt securities with almost the equivalent of a Federal Government guarantee. The U.S. and local housing authorities were more than interested. Here was a way to raise the needed 10 percent, and at interest rates actually below those at which the Federal loans had to be made under the terms of the act. Some minor amendments were needed in the Federal act, but when these were made local authorities began to sell their bonds in the private market at very favorable rates. The 10 percent was no longer a difficulty. In fact, private investors soon were buying local authority bonds up to 25 percent or so of the development cost of projects as well as short-term notes for construction financing.

The Housing Act of 1949 clarified and strengthened the amendments to the act of 1937 that had made this development possible. This made possible the raising of all or nearly all funds for public housing through the sale of local authority bonds (backed by the Federal annual contributions contracts) in the private investment market. The act of 1949 also reduced the maximum period of annual contributions to 40 years, but added another 1 percent to the maximum amount of Federal annual contributions. This maintained the necessary coverage. Thus the financing of public housing resulted in rents that had to cover only the expenses of maintenance, repair, operation, and administration of the projects plus allowances for the depreciation of items of equipment with useful lives of less than 40 years, plus payments in lieu of local taxes.

In 1940, shortly after the so-called defense period began with the fall of France, Congress by the Lanham Act (an act to expedite the provision of housing in connection with national defense, and for other purposes, approved Oct. 14, 1940) provided funds and a new administrative organization for housing low-income families whose wage earners were

in defense or war production. Early in 1942 the President, under his war powers, put both the U.S. Housing Authority and the Lanham Act unit into the National Housing Agency, and renamed the combination the Federal Public Housing Authority.

These two acts, together with the completion of the PWA housing, accounted for 160,000 housing units between 1939 and 1943. These units are still in operation. Of these, 95,000 were completed in 1940 and 1941—or prior to World War II—and another 50,000 in 1942 and 1943. While somewhat outmoded today, they were, on the whole, well and inexpensively constructed and seldom exceeded 3- or at most 4-stories in height. They were, in the main, walkups and 2-story buildings. Few, if any, outside of New York were of the multistory type.

The residents admitted to these public projects were for the most part self-respecting families, accustomed to city living, and good tenants. The rural migration was still of moderate proportion. To be sure, there were some problem families in public housing even then, but probably in no project were they more than a small minority.

During the war, it became more and more difficult and finally impossible to obtain satisfactory materials for the housing needed to accommodate the war workers who poured into the production centers. Emergency and temporary housing which skimmed on both space and materials was constructed—most of it financed under the Lanham Act. After these units had been used for further housing during the post-war period when servicemen were demobilized and were beginning family life, these temporaries were largely removed from the market, until today only about 2 percent remain. Only 10,000 units of low-rent public housing are presently being used which were built in the 5 years from 1944 through 1948.

The political and economic sentiment of the country seemed on the surface to be vigorously opposed to public housing in 1946 and 1947. As a result of this and acute shortages of many building materials, few additional units were started and less than 2,000 units were completed in 1947-48. As 1949 opened, there were approximately 170,000 units of public housing built and in operation.

#### *Housing Act of 1949*

The surprising reversal of public opinion in the election of 1948 was quickly reflected in the passage by Congress of the Housing Act of 1949. At times the discussion over it was intense, and the votes close. The division was in the main between liberal and conservative forces, but the intellectual leader of the conservatives, Senator

Robert A. Taft, gave the measure vigorous support. In its preamble, Congress declared its purpose to be the realization as soon as feasible of the goal of a decent home and a suitable living environment for every American family, and it adopted the dual approach of public housing and slum clearance. Both were intended to be parts of the same program.

To help make the housing pledge more definite, Congress authorized the construction of 135,000 units of public housing a year for 6 years, or a total of 810,000 units. With the 160,000 to 170,000 units of public housing which were already under management, it was obviously the goal of Congress to have a total of 1 million units built by the middle of 1955. This, it was thought, would house close to 4 million persons and help break the back of the housing shortage for the poor.

The act of 1949 also made at least three amendments to the basic law of 1937 that should be noted.

(1) It deleted the requirement that projects receiving Federal annual contributions must also be given a local cash or tax subsidy of at least 20 percent of the Federal contributions. Inserted in its place was a provision that the local projects were to be tax exempt, but that a payment in lieu of taxes of not more than 10 percent of annual shelter rents could be made for each project. Prior to 1949, the amount of the local tax subsidy had been the subject of much contention and bargaining between Federal and local officials. This new provision, section 10(h), resulted in the practically uniform practice of 10 percent payment in lieu of taxes.

(2) It required, as a condition of Federal loans or annual contributions, “\* \* \* that a gap of at least 20 per centum has been left between the upper limits for admission to the proposed low-rent housing and the lowest rents at which private enterprise unaided by public subsidy is providing (through new construction and available existing structures) a substantial supply of decent, safe, and sanitary housing. \* \* \*” This provision has been sharply criticized. At best, it seems ambiguous. How is the 20 percent to be calculated? However it is done, doesn't it leave too big a gap in ranges of rentals and family incomes into which a substantial proportion of American families fall? Why should they be condemned to inadequate housing while families below them on the income scale are at least eligible for better housing? Although the principal argument for this provision was that it would be an inducement for private builders to move into the rental ranges of the gap, have they, in fact, done so on any scale? Despite the criticism that the 20 percent gap has been subjected to, it remains in the law.



(3) It provided that, among low-income families eligible for public housing, first priority should be given to those " \* \* \* displaced by any low-rent housing project or by any public slum-clearance or redevelopment project. \* \* \* " This provision has been characterized as an act of conscience by Congress. If a government-aided program took away a poor family's housing, particularly in a time of housing shortage, was not this priority in public housing the least that any sense of equity or common decency would call for?

Clearly it was, and undoubtedly this provision has eased the plight of many low-income families. On the other hand, it has had some unexpected and unfortunate consequences in practice—particularly in some cities with large numbers of displaced families. When a clearance project is undertaken, many families in the project area almost always move out under their own power. Often, of course, many of them have received advice from a local relocation office and payment of moving expenses, but nevertheless they make their own arrangements. A smaller but still substantial proportion are rehoused in the existing private supply, primarily through the efforts of the relocation office. This leaves a relatively small proportion of unfortunates who are often referred to as problem families or the pathologic poor—e.g., the mentally and emotionally subnormal and unstable, broken families headed by a parent incompetent for physical, mental or emotional reasons to cope with its day-to-day problems, and those whose only means of livelihood is either illegal or on the shady side of legality. Many of these families may have been referred to private landlords, but have been turned down. Where can they be relocated? Too often the only answer has been in public housing. And, of course, when public projects begin to accumulate more and more tenants of these kinds, more and more self-respecting families move out. In some instances, a project has become little more than an institution for the ill and subnormal, but without the institutional care they need.

Several remedies for this sad state of affairs are fairly obvious. Only two need be stressed. The first is to provide proper care and services for such families, wherever they may be housed. The other is to expand the supply of public housing so that it cannot be swamped by a relatively small number of such families. After all, subnormal mentality, emotional immaturity and antisocial behavior are not confined to families of low incomes. With respect to housing, the real problem is not so much the existence of problem families as it is their concentration in one or two or a very few places of residence in a locality.

The Housing Act of 1949, however, is a landmark in the evolution of housing policy in this Nation. Both in its substance and in the circumstances of its passage it set, as far as any one measure could, a new and higher standard in this area of public policy. Perhaps its principal merit was that it was the first and, until the act of 1968, the only public housing measure that authorized action on a scale that bore some reasonable relation to need. Building on the foundations of the act of 1937, it enlarged and strengthened the structure in important respects. It should have marked the coming of age of low-income housing in the United States.

#### *Outbacks in public housing construction*

But as so often happens in both public and in private life, the high hopes and noble pledges with which the program was started have been carried out only to a fractional degree. Only about 460,000 additional units of public housing were completed in the 18 years from 1949 to the end of 1967, making a total for all public housing then occupied of 633,000.<sup>2</sup> A further 41,000 were in the process of construction. In other words, in three times the allotted span of 6 years since 1949, only a little over half the authorized quota has been built and commissioned.

So gigantic a failure to live up to the promises that were so solemnly pledged requires a thorough explanation. But before the deeper causes are probed, a chronicle of some of the events that marked that melancholy lack of progress is appropriate.

It took time for the new housing program to get underway, so that only 1,225 units were actually finished in 1950 and only slightly more than 10,000 in 1951. In the 3 years 1952-54 inclusive, however, no less than 161,000 units of housing were completed. But these were largely the result of the earlier high volume of starts in 1951 and 1952, and the high initial rate in the early months of 1953. While the new administration which came into office that year was, on the whole, distinctly unfriendly to the program of public housing, it did not kill it. It allowed buildings that had been specifically authorized to localities before it took power as well as those that had been actually started, to be completed. But it was very reluctant to make new authorizations. The number of new starts was, therefore, slowed down to 16,000 in 1954, and to approximately 9,000 and 5,000, respectively, in 1955 and 1956. There was a slight revival in 1957 and 1958. But it took 7 years, 1955 to 1961, to achieve a total of 118,000 com-

<sup>2</sup> This does not include the approximately 40,000 units in Puerto Rico and the Virgin Islands.



pletions—a 7-year total lower than the yearly goal under the 1949 act.

After 1960, the next new administration did not immediately push forward. The years 1962, 1963, and 1964 showed an actual decline of from 5,000 to 8,000 below the 1960 levels. In 1965 and 1966, however, new starts again moved upward to about 23,000 and to 40,000 in 1967. The starts were still far below the 60,000-a-year that had been authorized by a liberal Congress in 1965. Any blame for the later slowdown therefore cannot properly be charged to Congress. It was due to deeper forces in the Nation.

#### *State housing programs*

Only four States have adopted State-aid programs of any size. New York, probably the most socially conscious of all the State governments, has carried out the most extensive program and has completed 64,000 units for low-income families and 40,000 units for moderate-income families under limited dividend and limited profit programs. Massachusetts has built 8,100 units for the low-income elderly and 15,300 for veterans with low to moderate incomes. Connecticut has built 1,200 units for the low-income elderly and 9,600 under moderate-income plans. During the late 1940's and before the act of 1949, the State of Illinois and Chicago cooperated in building something less than 1,000 units.

#### *Geographic distribution of public housing*

Some idea of the geographic spread of public housing can be gained from the fact that at the end of 1967 there were 1,538 local housing authorities actually managing public housing projects. If we include localities in the 50 States whose applications had been reserved and those under planning prior to construction, as well as 72 such localities in Puerto Rico, we get an added number of nearly 1,400 localities, or a grand total of 2,913 localities that were involved.

If we take (as HUD does) not only the 723,000 units either built or under construction by the end of 1967, but also the 223,000 units which are reserved and under contract but not under construction, we arrive at a grand total of 946,000. This includes slightly more than 42,000 in Puerto Rico and the Virgin Islands.

These housing units were located in every State of the Union and often where they might be least expected. Thus, while there were 62 local authorities in New York and 50 in California, there were no less than 134 in Alabama, 89 in Arkansas, 101 in Kentucky, 193 in Georgia, and 281 in Texas.<sup>3</sup> Whereas there were only 400

public housing units under management in Maine and a little over that number in Iowa and Kansas, Alabama had 28,000. This was twice as many as there were in the great industrial State of Michigan. Tennessee with 24,500 units had three times as many as the State of Washington.

#### *Popularity in small communities*

The 2,913 different localities (not authorities) were grouped by size as shown in table 1.

TABLE 1.—NUMBER OF LOCALITIES INVOLVED IN FEDERAL PUBLIC HOUSING  
DECEMBER 1967 (INCLUDING PUERTO RICO AND THE VIRGIN ISLANDS)  
CLASSIFIED BY SIZE

Population of localities with public housing	Number of localities with public housing	Percent of localities with public housing
Under 2,500.....	1,177	8
2,500 to 5,000.....	473	22
5,000 to 10,000.....	406	29
10,000 to 25,000.....	401	35
25,000 to 50,000.....	198	46
50,000 to 100,000.....	133	66
100,000 to 250,000.....	74	90
250,000 to 500,000.....	31	100
500,000 to 1,000,000.....	15	94
Over 1,000,000.....	5	100
Total.....	2,913	14

Source: Statistical Abstract of HAA Operations, April 1968, table 9.

As might be expected, the percentage of participation increases with the size of the locality. Only eight of the 82 cities with populations between 100,000 and 250,000 did not have or were not planning to have public housing. And of the 52 cities with populations over 250,000, only one (San Diego) did not have any public housing. All five of the cities with over a million population were in the program.

#### *Relation to urban population*

Table 2 shows the distribution of public housing units among the localities of various sizes and then compares the proportionate distribution of this housing among these localities. The table compares the percentage of the public housing credited to cities of a given size with the percentage of the nonrural population who live in incorporated areas. The comparison is somewhat complicated, but we believe it is important.

Whereas localities under 2,500 accounted for only 0.6 percent of the "urban" population, they had 4 percent of the public housing. This meant that they had a relative proportion of 6.6 times as many public housing units as they had population. It would be interesting and perhaps significant to find the explanation for this and whether it is justified in the light of current conditions.<sup>4</sup>

<sup>3</sup> Local authorities participating in HAA low-rent programs as of Dec. 31, 1967, 123 pp. Summary on p. 1V.

<sup>4</sup> It is, however, true that small mining camps and low-income offshoots of big cities such as Robbins, Ill., have frequently had the worst housing of all.

TABLE 2.—DISTRIBUTION OF PUBLIC HOUSING AMONG LOCALITIES OF VARIOUS SIZES IN COMPARISON (1967) WITH RELATIVE NONRURAL POPULATION (1960)<sup>1</sup>

Size of locality	Number of housing units (in thousands)	Percent of housing units	Cumulative percent	Percent of population in localities	Cumulative percent	Ratio of housing to nonrural population	
						By groups (6)=(2)÷(4)	Cumulative (7)=(3)÷(5)
	(1)	(2)	(3)	(4)	(5)		
Under 2,500.....	41.1	4	4	0.6	0.6	6.6	6.6
2,500 to 5,000.....	35.7	4	8	6.6	7.2	.6	1.1
5,000 to 10,000.....	50.8	5	13	8.5	15.7	.6	.8
10,000 to 25,000.....	85.9	9	22	15.2	30.9	.6	.7
25,000 to 50,000.....	80.0	9	31	13.0	48.9	.7	.6
50,000 to 100,000.....	99.5	10	41	12.0	55.9	.8	.7
100,000 to 250,000.....	114.0	12	53	10.1	66.0	1.2	.7
250,000 to 500,000.....	138.6	14	67	9.3	75.3	1.5	.8
500,000 to 1,000,000.....	135.5	15	82	9.6	84.9	1.6	.95
Over 1,000,000.....	165.0	18	100	15.1	100.0	1.2	1.0
Total.....	946.2	100		100.0			

<sup>1</sup> See Statistical Abstract of HAA Operations, January 1968, p. 4; Statistical Abstract of United States, 1967, p. 16.

The public housing program, particularly in its earlier years, was, of course, not essentially or even primarily an urban program. Although its machinery, particularly the local housing authorities, and some of its requirements—e.g., that families move out if their incomes rose above a certain figure—were either awkward or impossible in farm housing, an earnest effort was made to adapt them to the needs of smaller places, some of which might be urban under Census definition but which were largely rural oriented in fact. The strength of the farm-rural bloc in Congress possibly led some housing administrators to considerable efforts not to seem unmindful of small-town people and their needs. In many quarters, urban needs and urban programs have only recently become meaningful categories or classifications, and Members of Congress from urban areas have been sharply divided on public housing. Support from Members with rural and small-town constituencies was more than welcome. Quite possibly, too, the census measures of housing quality, which show markedly worse housing in rural areas than in the larger metropolitan areas, may have misled some.

After all this is said, however, the relatively high proportion of public housing in the small-est nonrural places is only partially explained.

For the next five categories of localities, with populations from 2,500 up to 100,000, the proportion of housing units involved was somewhat less than the proportion of the population which the localities contained. The small towns and cities, therefore, have less than the average.

Cities from 100,000 on up get somewhat more housing than their precise proportion of the population. In view of the particular seriousness of the housing problem in the larger cities, it is questionable that even these proportions match the relative need. The problems of the five cities with over a million population would

seem to be more than 20 percent more serious than the average for all the urban localities. Certainly the smaller cities were not on the whole neglected by HUD and its predecessors, although some facing great needs without resources, such as East St. Louis, tended to feel left out.

Another classification is by the number of units included in the various local programs. This is not by projects, but by programs—all projects combined.

Size of program :	Number of local authorities
Less than 50 units.....	656
50 to 100 units.....	431
100 to 500 units.....	773
Over 500 units.....	296

Source: Statistical Abstract of HAA, April 1968, table 8.

In the 123-page listing of projects recently issued by HUD, there were no units listed as under construction in either New Haven or Detroit.<sup>5</sup> It is sometimes alleged that this was one of many reasons for the riots which took place in those cities in 1967.

<sup>5</sup> Among the cities with large numbers of units are the following:

*New York City* with 64,700 units in operation (not including the State and local programs), 5,200 units under construction, and 12,500 under planning;

*Chicago* with 33,000 units under management, 1,000 under construction, and 5,200 in the pipeline;

*Boston* with 11,000 units in operation for a population of 697,000 in 1960;

*Philadelphia* with 15,700 units in operation for a population of 2,002,000;

*Washington, D.C.* with 10,100 units for a population of 764,000;

*Newark* with 10,900 units in operation in a city of 405,000, and

*Atlanta* with 9,000 units under management, 800 under construction, and 5,200 up the pipeline in a city of 487,000.

Certain other cities, on the other hand, seem to have done very little in comparison with their size:

*Los Angeles* with only 9,300 units for its 1960 population of 2,479,000;

*Detroit* with only 8,200 units for a population in 1960 of 1,670,000, and none under construction;

*Houston* with 2,600 units and none under construction for a population of 938,000.



### *Self-help and housing for the Indians*

About 1,900 public housing units have been built for Indians, of which one-sixth have been built under the principle of self-help from members of the family. This principle, under general advice and supervision as to plans, materials, and methods, would seem to be well adapted where prefabrication or simple materials are involved, especially in small towns and in surrounding rural areas and on the outskirts of smaller towns and cities.

### *Characteristics of public housing tenants*

About 2.4 million Americans—a little more than 1 percent of the total population or a little less than 2 percent of the population in the SMSA's—live in public housing. The average number of persons per family in public housing is 3.78, but this covers wide variations among families and the number of persons composing them. This is shown by table 5.

TABLE 5.—PERCENTAGE OF FAMILIES IN PUBLIC HOUSING, BY FAMILY SIZE AND RACE

Number of persons in family	Percentage of families in public housing		
	All	White	Negro and nonwhite
1.....	19	28	12
2.....	19	23	16
3 or 4.....	28	24	30
5 or 6.....	20	16	24
7 or 8.....	9	6	12
9 or more.....	6	3	6

Source: "Local Authorities Participating in HAA Low-Rent Programs as of Dec. 31, 1967," 123 pp., summary on p. IV.

Whereas 25 percent of the white families had five or more members, 42 percent of the nonwhite families were of this size. Only 9 percent of the whites had families of seven or more whereas 18 percent, or twice as large a relative number, of the nonwhites were in this class with a combined total of 15 percent.

No less than 38 percent of all the family units had only one or two members. These were actually half of the white families and were concentrated among the elderly. They formed only 28 percent of the nonwhites.

### *Racial composition*

In 1967, 50.5 percent of all public housing units were occupied by Negro families.<sup>6</sup> This proportion had increased steadily after 1956, as indicated in Table 6.

On the basis of a slightly different sample, the percentage of Negroes and other nonwhites seemed to be somewhat above the national average in the Chicago and Philadelphia areas, very markedly below it in the San Francisco region,

<sup>6</sup> Statistical Abstract of HAA Operations, January 1968, table 14.

TABLE 6.—PERCENTAGE OF NEGRO TENANTS IN PUBLIC HOUSING

Year:	Percentage which Negro families formed of all tenant families
1956 .....	43.6
1961 .....	47.4
1965 .....	49.7
1966 .....	50.2

Source: Statistical Branch of HAA.

and slightly below it in the New York area. The Atlanta area, although in the Deep South, was only slightly below the national average.<sup>7</sup> Of course, many of these variations may be accounted for by the varying proportions of nonwhites in the different cities.

If we take into account the larger average size of Negro families and add the other nonwhites, the total nonwhite occupancy of public housing probably accounts for about 55 percent of the families and between 59 and 60 percent of the persons. Then, if we were also to include the number of Mexican-Americans and Puerto Ricans in projects inside the continental United States, we would have a total of some three-fifths to two-thirds for such a combined group. The number of persons of Anglo-Saxon and European stock in the public housing projects, therefore, probably does not exceed two-fifths and might be as low as one-third if the figures were brought up to 1968. While these racial stocks form about half of the elderly, they comprise less than a third of the children. This is merely a quantitative appraisal of the actual facts without the slightest degree of judgment on the relative quality of the occupants. It does help, however, to explain some of the popular opposition to public housing.

### *The elderly*

As we have indicated, the elderly, particularly among the whites, have come over the years to constitute an even larger share of the occupants of public housing.<sup>8</sup> In recent years approximately half of the public housing starts have been specifically for the elderly. The record by years from 1964 to 1967 inclusive is shown in table 7.

Public housing has always been more popular for those in the later than in the earlier years of

<sup>7</sup> *Families in Low-Rent Projects* RHS 225.1, Department of Housing and Urban Development, Housing Assistance Administration, April 1968, p. 22. It is interesting to note that in the Atlantic or Southern Regions, only 58 percent of the occupants were Negroes. This was a lower figure than for Chicago and Philadelphia, and it had increased very little during the preceding decade from 1956 when nonwhites formed 55 percent in the Fort Worth or Southwest Region. Negroes constituted 47½ percent of the families in 1956, but this was still a much lower ratio than those of Philadelphia and Chicago.

<sup>8</sup> If 62 years is taken as the dividing line, they formed 30 percent of total in 1966. *Families in Low-Rent Projects*, p. 2



TABLE 7.—UNITS FOR THE ELDERLY AS A PERCENTAGE OF TOTAL PUBLIC HOUSING UNITS STARTED

Year	Total number of public housing units started (including rehabilitations) (in thousands)		Total number designed for elderly (in thousands)	Percentage for elderly	
	Total starts plus rehabilitations only	Total including leased housing		Without leased	Including leased
1964.....	25.6	25.6	12.4	48	48
1965.....	33.2	33.3	17.4	53	54
1966.....	31.8	33.8	19.8	62	59
1967.....	33.6	40.6	19.3	57	48
4-year total..	124.2	133.3	68.9	56	52

life, and this is particularly true among whites. From the data on public housing for the elderly, it would seem that as the fires of life subside, they do not feel as much race antagonism or object as much to being with or near Negroes. Mixed projects for the aged, for example, are well accepted in Atlanta which, while a progressive city, is still geographically in the heart of the Deep South.

It is far more common for Negro families in the active years of life to have recourse to public housing than for whites.<sup>9</sup> There are at least two major reasons for this: (1) The percentage of Negro families in the active years who are poor is far greater than that of white families. Thus, Mollie Orshansky's study as carried out by the Census Bureau showed that of 44 million white families in 1966, 9.9 percent were poor (including the abjectly poor) and 6.7 percent were among the near-poor for a total of 16.6 percent, or one-sixth. The percentage of the poor among Negro families, however, was 34.9 percent, while the near-poor numbered another 11.9 percent.<sup>10</sup>

(2) It is true, however, that because of their smaller total number, the nonwhites form only a minority of the poor—30 percent of the families and 40 percent of the unrelated individuals. The average of the nonwhites among the total poor in the population was approximately 33 to 35 percent as compared with the approximately 58 to 60 percent which they formed of the occupants of public housing. This seems to indicate far less reluctance to apply for admission to public housing among nonwhites than among whites. It also implies that there is little or no discrimination on the ground of race to their admission.

<sup>9</sup> If we subtract the 88.3 "senior" white families from the total figures, we would have left 117,000 white families whose heads are in the active years, in contrast with 213,300 comparable non-white families. Although non-whites form 56.4 percent of all families, they are 65 percent of those with heads in the active years.

<sup>10</sup> Mollie Orshansky, *Who Was Poor in 1966*, Research and Statistics Note No. 23, 1967; Department of Health, Education, and Welfare, Table 4.

## Income

The median incomes of all public housing occupants of more than a year's duration (including the 3 percent excluded as being over the allowed maximums), are shown in table 8.

TABLE 8.—MEDIAN INCOME OF PUBLIC HOUSING OCCUPANTS (1956-1960)

Year	Average annual income, all family occupants of public housing	Constant dollars of purchasing power (1957-59 as base years)
1956.....	\$2,256	\$2,382
1961.....	2,418	2,321
1965.....	2,577	2,345
1966.....	2,709	2,395

Source: "Families in Low-Rent Projects," RHS 225.1, Department of HUD, HAA, April 1968, p. 1.

Several very important conclusions may be drawn from table 8. The first is that with half of the families receiving less than the average figures given, the vast majority were in striking poverty. The urban upper limit for "abject poverty" in 1966, according to Mollie Orshansky, was \$2,240, and for the next group, the poor," it was \$3,365. If we consider the fact that the midpoint of the incomes was \$2,079, this meant that the vast majority in public housing were most certainly poor.

The second important factor is that if the increase in the cost of living is taken into account, the occupants of public housing have not on an average enjoyed any increase in real incomes. Most sections of the American people made economic progress during this decade. The occupants of public housing did not; their real purchasing power remained the same. They were, as a whole, still on the same poverty-stricken level in 1966 as the similar families were a decade before.

Another way of looking at these figures is to conclude that public housing has been reaching further down the income scale, at least during this 10-year period. While most groups in the population, including some below the poverty line, have had increasing incomes both in current dollars and in purchasing power, those in public housing have not. Thus, as a group, they were further down the scale in 1966 than they were in 1956.

One warning should be sounded: these income figures do *not* mean that as a group residents of public housing are a sodden, ambitionless mass without the energy or incentive to improve their economic lot. Although, as will be pointed out shortly, the rate of physical mobility of public housing residents is below that of the population at large—i.e., they move less often—it nevertheless is more than 16 percent per year. Thus the residents of public housing in 1966 were not by any means largely the same

families as in 1956. It was a somewhat larger group in 1966, and many of the 1956 families, for one reason or another, were no longer in it.

Another fact should be taken into account with regard to these income figures. During the 10 years they cover, the proportion of housing for the elderly in the total inventory of public housing increased very substantially. Many elderly families, both nonwhite and white, are very poor indeed. Many subsist largely on relief money or social security payments. Thus their increasing numbers would help to keep the median figures low.

In 1966 only 3.3 percent, or one family out of every 30, was found to be ineligible for continuance in public housing because it had income in excess of the permitted maximum.<sup>11</sup> These families, therefore, were subject to expulsion from the projects even though their incomes were not sufficient, in many cases, to obtain decent housing in the commercial market. The charge that the projects are full of the well to do is seen to be basically false. In fact, the opposite is true.

Although *average* family incomes in public housing are very low, it is true but incongruous that because of the financial requirements imposed upon the local housing authorities, a proportion of the abjectly poor and even of the poor are debarred from entrance.

There is no overt discrimination against the abjectly poor as such, but financial requirements necessarily compel a certain amount of automatic exclusion. It will be remembered that while the Federal Government subsidizes all of the interest and amortization charges on the housing units, and hence all the fixed costs, it does not provide for (1) maintenance and service costs nor (2) the 10 percent of shelter rent (i.e., rent paid minus utility charges) paid to local governments in lieu of taxes. These operating costs come in some cities to as much as \$65 or \$70 a month for a three-bedroom apartment. This in itself would require a yearly payment of from \$780 to \$840. Allowing 25 percent of the family's income for rent, this would require a yearly income of from \$3,100 to \$3,400. This would exclude all the abjectly poor and a large proportion of the poor.

Even if maintenance, operating and tax costs were as low as \$50 a month, or \$600 a year, this would require a family income of from \$2,400 upward. Many of the abjectly poor, who from a human standpoint need decent housing most desperately, are debarred from admission by the simple fact that they cannot pay the rent.

Families receiving inadequate payments under the welfare programs—a quite common con-

dition—are, therefore, largely ineligible for public housing, while the majority of those who are in need but who, for one reason or another, nevertheless do not receive any welfare payments at all, are in an even worse plight. This group seems to amount to at least 8 percent and possibly as much as 10 percent of the urban population.

There is great need, therefore, for a more flexible system of subsidizing the rents of the poor. An added rent allowance of \$10 a month or for each minor child in a poor family, to match the present \$10 allowance for the elderly and displaced, as recently enacted, will help. It might be extended and given either in the form of a lower rent or as a certificate which the family could then present for housing, but only for that purpose. The latter system would have a broader application since it could be used by a family to rent private as well as public accommodations. It would be similar to the food-stamp system, and it would have the same superiority over payment in kind; namely, that it does not single out its recipients for public attention. It would likewise permit private industry to operate more fully in meeting public needs. Not only careful consideration but experimentation is in order. Another possible answer would be to grant an allowance to the occupants against the rent or tenant's equity for maintenance work or performance of minor repairs.

But income limitations are not the only factors that bar many of the poor from admission. Many housing authorities have also felt compelled to impose other restrictions. They have done this both to protect the good name of their occupants from savage public criticism and to protect the occupants themselves from antisocial behavior by some of their associates. Thus, New York, which has done a comparatively good job in caring for its needy residents, felt compelled up until the spring of 1968 to impose no less than 19 rather stringent conditions for admission to public housing. If a woman had given birth to an illegitimate child, for example, it was very difficult to gain admission. This was also the case if she was a prostitute. The use and sale of narcotics, violent behavior, and a previous criminal record were also grounds for exclusion, as was a bad previous record as a housekeeper or parent. These rules certainly served to lessen the disciplinary problems of the occupants. It is probably true that similar if less explicit standards practiced by other housing authorities have also helped to raise the general level of behavior of their occupants. Existing occupants have tended to approve of them as a necessary means for protecting their children and themselves from contamination from those of ill-repute.

<sup>11</sup> *Families in Low Rent Projects*, op. cit. Table F, p. 16.



But the New York standards seemed somewhat too severe in not allowing sufficiently for recent improvements in behavior, and in permitting the rejections to be made on the basis of the written record without the requirement of a personal interview. They were, therefore, modified in May, 1968, to provide for an elaborate system of interviews and appeals with an instruction that consideration should be given to recent behavior and that prostitution, the sale of narcotics, etc., should not in themselves make an applicant ineligible if the offense were more than 5 years old. Similarly, illegitimacy was not in itself to be a conclusive ground for exclusion. Within the groups otherwise eligible, priority was to be given to former residents of the housing site or other areas being cleared by Government action and to families that had been evicted and were living in grossly substandard conditions.

With the recent rise in tenant consciousness, a movement is underway, especially in New York, to grant greater powers to tenant committees. In some cases this may lead to stricter requirements. This seems to have happened in certain Boston projects, where the occupants protested against the type of families being sent to them for admission. But if the housing authorities and the tenants come to regard each other as adversaries, as frequently happens in landlord-tenant relationships, the results can be highly unfortunate. On the whole, it would seem best to have any such council act in an advisory capacity so far as admissions are concerned, but to give it a considerable degree of jurisdiction over such matters as noise, cleanliness, the provision of amenities, and expulsions. The ultimate authority, however, on both admissions and dismissals, should be vested in the Housing Authority as the representative of the community as a whole.

Although the imposition of maximum income standards was designed to prevent those who did not financially need low-rent housing from obtaining it at the expense of the community and to reserve this benefit for those who were in need, the results of this requirement were extremely unfortunate in many cases. It certainly penalized attempts on the part of the occupants to get ahead, for once they rose above the low-income class, they were expelled and forced to seek housing elsewhere. Such housing was, in many cases, inferior and more costly. A small increase in cash income, therefore, actually could become an economic and social loss. It must have seemed safer and more comfortable, therefore, for a considerable number of occupants to conclude that it was better not to try

to increase their income and hence to have the security of staying on in subsidized housing.<sup>12</sup>

Only 2 percent of the whites had incomes over \$5,000 when they entered public housing in 1961, and these were admitted because they had large families. Five years later, they made up 11 percent. Nonwhites did even better. The proportion under \$1,500 decreased in the 5 years from 19 percent to 16 percent, while those with incomes from \$1,500 to \$3,000 declined from 53 percent to 34 percent. The proportion of Negroes with incomes over \$4,000 on the other hand rose from 9 percent to 31 percent, and those with over \$5,000 from 2 percent to 17 percent.<sup>13</sup>

In spite of all discouragements, therefore, there is evidence that a considerable proportion of the occupants kept on trying. The incentive to get out of poverty and public housing was probably somewhat diminished, but it was still strong among a large number.

It would seem better, therefore, to permit those who do raise their income above a given maximum to stay on if they wish, provided they agree to devote approximately a quarter, or a fifth of their excess income for an added payment for rent. In this way the occupants would retain three-fourths, or four-fifths, of any added income instead of suffering an outright penalty. The local housing authority would also receive an increase in income. If Federal regulations were modified a little, the increase in rental income could be applied as additional subsidy for families of even lower income than the present residents of the housing. This would make possible a wider range of income among public housing residents without any hardship on existing occupants. It would also keep in the projects some of those families most likely to become leaders in neighborhood affairs.

Earlier provisions of the law which gave tenants an opportunity to purchase their units under very limited circumstances were extended by the 1968 act. This, too, is one method of bringing a greater economic balance to public housing and also to retain tenant leadership in public housing.

A second way to encourage families who want to rise would be to permit the upwardly mobile to try to buy a home of their own. This could be done under the new low-interest rate program or by the FHA and VA selling to the local housing authority some of the mortgaged homes that have been foreclosed. The authority

<sup>12</sup> Some proof that this tendency to relax is present among the lowest-income whites is seen by the fact that the percentage of those with incomes under \$1,500 is as great among those who remained in 1966 as when the same individuals entered in 1961—namely 29 percent. The proportion of whites with incomes from \$1,500 to \$3,000 had, however, gone down from 49 to 37 percent, while those over \$3,000 among the whites had gone up from 7 to 20 percent.

<sup>13</sup> *Families in Low Rent Projects, op. cit.*, p. 60.



could, in turn, sell them to those whose incomes were in excess of the allowed public housing maximum.

Slightly more than half of the occupants—52 percent—received some form of social security benefit or public welfare assistance, or both. This was an increase over 1962, when the percentage receiving either benefits or assistance was 47 percent.

Most of the elderly in public housing received old-age security and assistance payments. There were, in fact, only 5 percent who did not. But among those in the active years, two-thirds—66 percent—though markedly poor, received neither public assistance nor benefits.<sup>14</sup>

There has been a very slight decline since 1962 in the proportion in this group. A slightly larger proportion of whites than nonwhites expected that they would receive assistance or benefits in the future.

There can be little question that the percentage of broken families is extremely high in public housing, and that it has increased appreciably in the last decade. No less than 42 percent of the families were broken in 1966. This was an increase of 9 percentage points from 1956. This high rate was, however, not caused by public housing. Mothers without husbands and families without fathers had no other place to go, and public housing was a place of refuge for them.

This ratio, as seen in table 9 was higher among nonwhites than whites, but the increase among whites was also discouragingly large.

TABLE 9.—PERCENT OF BROKEN FAMILIES AMONG THOSE WITH MINORS IN PUBLIC HOUSING

Year	Total	White	Nonwhite
1956.....	33	31	35
1958.....	36	33	38
1960.....	35	33	37
1962.....	36	33	38
1964.....	38	33	40
1965.....	39	37	41
1966.....	42	38	44

#### *What is right with public housing?*

It is easy to criticize public housing for its weaknesses—and we shall shortly discuss them. But public housing also has strengths. It has given decent and dignified shelter to nearly 2.5 million hardpressed people who would otherwise be in desperate need. In fact, if we count all families that have lived in public accommodations, the total is much higher.

On the whole, the housing projects have given a high degree of satisfaction to their occupants in comparison with what is available for them

elsewhere. This has been done, as we have seen, with relatively low rents. The median gross rent, including utilities, for all families in 1966 was \$48 a month, and the arithmetic average of all rents was \$50.62. It would have been utterly impossible for the occupants to have obtained comparable quarters for such a sum. It is difficult to estimate what the comparable saving in rents has been, but in all probability it has been at least \$30 to \$45 a month.

#### *Vacancy rates*

The relative degree of satisfaction is shown quite clearly by tables 11 and 12. Thus:

(1) The *average vacancy rate* for the projects in the 50 largest cities of the country was only 2.2 percent in 1967, whereas 5 percent is considered the normal vacancy rate for privately-rented apartments.

(2) The *average turnover rate* for tenants in public housing units in these cities was only 16.3 percent, whereas the country-wide rate for both owners and renters combined is 20 percent. If the turnover rate for the renters in privately owned and managed housing could be isolated from that of the owners, it would be much higher than 20 percent. The difference between the public housing rate and the private rate would, therefore, appear much greater than 4 percent.

(3) *Large numbers of applicants* are trying to get into public housing. In November, 1967, there were 193,000 applicants for accommodations whereas 2 months earlier there were only 6,864 vacant units. This was an average ratio of 28 applicants for every vacancy. If public housing were widely disliked by its occupants, we would have had no such ratios as these.

The record in some cities was amazingly good. Thus, in the housing of the much-abused New York Authority there were only 117 vacancies out of 64,000 units being managed. This amounted to only one-fifth of one percent, while there were more than 80,000 requests for admission. This was a ratio of 762 applications to every vacancy. In Chicago, which has taken an almost equal amount of abuse, there were only 173 vacancies out of 32,400 units, or a rate of only one-half of one percent. Also, there were no less than 21,800 applicants, or a ratio of 126 to every vacancy. The turnover rate in New York during 1966-67 was only 5.7 percent, and in Chicago, 9.9.

Many other cities had very good records in this respect. The following cities had vacancy rates of less than one percent: New Orleans, Memphis, Atlanta, Minneapolis, Columbus, Portland (Oreg.), Oakland, Birmingham,

<sup>14</sup> *Ibid.*, table 17.

Toledo, St. Paul, and Dayton. In Dayton, indeed, only one apartment out of 2,234 was vacant.

Most of these cities also had a high ratio of applicants to vacancies. This was 76 per vacancy in New Orleans, 340 in Memphis, 26 in Atlanta, 240 in Minneapolis, 56 in Columbus, 340 in Portland, Oreg., 120 in Oakland, 185 in Toledo, 93 in St. Paul, and 76 in Norfolk. In Dayton, there were 1,626 applications for the single vacancy.

On the other hand, certain other cities have had a bad record in terms of these quantitative measurements. Thus, St. Louis, largely because of the Pruitt-Igoe project, had a vacancy rate of 13 percent, or six times the nationwide average. (The breakage of windows, as the Commission observed firsthand, was also high there.) In Dallas, the vacancy rate was 12 percent. In Kansas City it was 14 percent, and in Fort Worth no less than 16.5 percent, or nearly eight times the national average. If, indeed, we exclude the 2,200 vacancies in these four cities, the vacancy rate for the remaining 46 cities would be only 1.5 percent.

Three of these four cities, moreover, had, as we would expect, higher than average turnover rates: 29 percent in Dallas, 20 percent in Kansas City, and 25 percent in Fort Worth. These four cities had, moreover, a low ratio of applications to vacancies. In St. Louis, this ratio was virtually 1 to 1; in Dallas, it was 1.3 to 1; in Kansas City, the ratio was only one applicant for every six vacancies; in Fort Worth, the ratio was 3 to 5.

While the general picture was, therefore, encouraging, this latter group of cities when measured quantitatively showed distinctly unfavorable results. The Commission sent a competent investigator to study the situation in these cities to see if he could diagnose the trouble. He reported that a study on the spot of these and 15 other cities indicated a number of factors which were instrumental in determining the relative success or failure of the projects.<sup>15</sup>

#### THE WEAKNESSES OF PUBLIC HOUSING

The Commission is most emphatically in favor of continuing publicly subsidized housing for the poor. We vigorously support a wide extension of such housing, although with certain changes of emphasis and administration.

But we do believe that the grave defects which at present afflict public housing should be either cured or greatly reduced. The housing of the poor will, in fact, be helped and not hindered

by a frank discussion of these weaknesses. Only in this way can we gain the impetus which is needed for improvement. We shall also try to make some very specific suggestions as to how we think these improvements can be carried out.

We would point out that the weaknesses are by no means all due to the administrators of the program, although many of them, such as the disproportionate number of small units, definitely are. But limitations on design and lack of money for services are primarily the fault of the Appropriations' Committees, and the opposition to the program in the more affluent communities is the result of local pressures.

Summarizing, we consider the chief weaknesses of public housing to be the following:

(1) An excessive and at times a disgraceful delay in the planning, approval, and construction of projects.

(2) A failure to take advantage of cost reduction methods of construction which could be carried out without any real loss of quality. It is fair, however, to ask how many other producers of housing in recent years have availed themselves of these methods.

(3) A failure to coordinate the minimum required standards for public housing with those for FHA housing.

(4) A pronounced tendency to build an excessive number of extremely high-rise and closely massed apartments, which make a better communal life very difficult and which identify the occupants as dwellers in "poor town."

(5) A comparative disregard of the needs of children and of large families through an undue concentration on apartments having two bedrooms or less.

(6) A comparative neglect of the services that the occupants and those in the surrounding communities need and that are essential to modern city life.

(7) A comparative neglect of the importance of design and of beauty, which are elements in the good life along with space, light, and shelter.

(8) A failure to carry through an adequate program of training for public housing personnel.

#### *Public housing costs*

The means of reducing housing costs, including those for public housing, are discussed in part V. It is sufficient here to point out the most important aspects of the problem.

First of all, there have been excessive delays in planning, execution, and construction. These, of course, add to housing costs and limit the number of units that can be built.

<sup>15</sup> George Schermer, "More Than Shelter" National Commission on Urban Problems, Research Report No. 8.



Relatively little has been done in public housing to use the methods of mass production, industrialized building, and the systems approach. Some of these offer possibilities. Public housing is produced in sufficient volume to make economies of scale practicable.

*Delays in public housing—the new turnkey method*

A familiar weakness in public housing has been the excessive time consumed in planning, execution, and construction. The exhibit A information shows the sequence of some 45 steps which must be followed from the beginning by the local housing authority to the publishing of the contract and which, according to the Housing Administration, consumes on the average approximately 308 days, or nearly a year. Only after this can site acquisition, demolition, and construction be carried out. Just how much additional time is required for these steps cannot be adequately discovered from official sources but Mr. Joseph Burstein, formerly General Counsel of the Public Housing Administration, has stated that the average total time has been "between 3 and 4 years for conventional public housing." This testimony from a man who should know is certainly not an overstatement.

President Johnson, alarmed at the delays involved in the processing time for numerous Federal programs, established a Joint Administrative Task Force in early 1967. It reported that 163 working days were required to process applications under the conventional low-rent public housing program. In its report of March, 1968, the task force said machinery had been put in place to reduce drastically such processing time. In the case of public housing, it projected a reduction of 85 working days, or 52 percent, with respect to the first major step in processing public housing applications.

The longer the period of preparation and construction the greater will be the apprehensions and uncertainties, the inconveniences and hardships of families displaced from the project sites. They will have to leave earlier and seek accommodations elsewhere. The previous life of the community will be disrupted by the harsh and long continued surgical operation performed on the neighborhood. Further the costs will be greater because of increased carrying charges. The increase in construction costs will, with delays, also raise the total cost.

The most recent shift in programs by HUD to reduce the time required has been the approval of the so-called turnkey method, originally devised by Mr. Burstein and first used in Washington and Philadelphia. Here a developer contracts with a local housing authority to produce a completed building or develop-

ment on land he owns and with the payments only to be made by the housing authority when the developer finally turns over the keys for the completed project to the authority.

This method may avoid the delays experienced after project approval in the attempts to acquire sites. It also saves time on the extra preparation by architects of plans and of subsequent competitive bidding for the construction contracts after publication. These are sometimes separated into three distinct groups—general construction, plumbing, and electrical. Instead, under the turnkey method, informal negotiations are entered into with several developers and a preliminary letter is issued to the one whose general proposal seems best. Further details on plans and price are developed and, if approved, are embodied in a subsequent letter of intent. This gives a financial guarantee to the contractor which enables him to obtain interim financing.

The advocates of the turnkey method stress that this method will greatly reduce the time now required for negotiations on plans and for competitive bidding on construction. It is also argued that it will speed up construction, since the costs of interim financing must be borne by the developer and builder. If the time required is reduced from 3 years to 1, the resultant savings would be appreciable.

The greatest possible weakness in any such plan is, of course, that negotiated contracts often carry with them the danger of collusive agreements to pad costs and price. The reply of the turnkey supporters is a double one. They allege that competitive bidding for public housing is not in fact as competitive as it may seem, that the number of bidders seldom exceeds from three to seven and that the same groups somehow seem at present to monopolize the business within a given city. The other defense is that firms can freely volunteer bids and that housing authorities should have independent appraisers and cost estimators who will review the proposals of the contractors. All this, together with full publicity on the final results will, it is argued, be enough to obtain more competition. The supporters of turnkey indeed carry the war into the ranks of the advocates of the conventional methods by alleging that more rather than fewer competitors would be drawn into the negotiations.

The promise of savings in time, money and land acquisition under turnkey may not always occur. Of course, if the developer owns or has a purchase contract or an option on a suitable parcel of land at the beginning of the turnkey negotiations, the acquisition process is substantially eliminated from the time of project development. How often this could be

reasonably expected, particularly in developments in blighted and slum areas, is open to question. Even in those instances, the developer certainly would count in his costs the interest on the money tied up in obtaining control of the parcel. If he must obtain the land after receiving the letter of intent, the chances of his saving time would be minimal; if the project called for the assembly of a sizable tract, the chances of his being badly delayed or held up on land prices would be high. Either of these possibilities could easily wipe out any possible savings in time or money from the turnkey procedure. If the turnkey advocates are thinking of this procedure as a means of supplying some substantial part of 500,000 to 600,000 units of low-income housing per year, it would seem virtually certain that land acquisition by private developers, without public aid, would lose rather than save time and money. Eminent domain, despite the time consumption and uncertainties, offers definite advantages in dealing with holdouts and with questionable titles to parcels.

On balance, it would seem more sensible for housing authorities (in those instances in which a builder does not have a proper site) to offer prospective builders under turnkey suitable sites obtained by the authorities or under contract on renewal sites. Surely this would save time and increase the number of builders with a genuine interest in turnkey operations. It would also ease the situation in which a local housing authority is going through the long process of acquiring a suitable site for low-income housing while the local redevelopment authority holds a surplus of land that it has acquired in the same painful way.

Another alleged advantage of turnkey is that it defers the time at which a low-income housing development is publicly announced, thus making potential opposition less effective. Some even suggest that a turnkey project might be well under construction before anyone other than the developer and a few key officials of the housing authority knew that it was intended for low-income residents. By then, according to this argument, opposition on racial or economic-class grounds, or for any other reason, would be all but futile. This would be in marked contrast to the unhappy experience of too many local housing authorities who have seen well-conceived projects delayed, hamstrung, and ultimately defeated by narrowminded and prejudiced opposition from nearby residents.

Naturally, this claimed advantage of turnkey is hotly disputed. Some objectors say that public business is simply not conducted that way in their localities and could not be without raising charges of collusion between public officials

and developers. They suggest that after this tactic had been used two or three times, neighborhood and property owner associations would find ways of delaying and harassing all residential building in their areas unless or until builders revealed their plans and intent in considerable detail.

Others dispute the feasibility of delayed announcement under existing local and Federal laws on public housing procedure. Many local statutes and much local practice without legal requirement call for public hearings on proposed projects. Turnkey projects are not excepted, and any attempt to take them out from under these requirements would have little chance of adoption. If the timing of the hearings under local law or established practice should favor the turnkey procedure, surely the advantage would be slight. Obviously the intent of the requirement for hearings is not to announce or rubberstamp a *fait accompli*.

Besides, the Federal statute says clearly that no annual contribution or loan contract for a low-rent project initiated after March 1, 1949, can be made " \* \* \* unless the governing body of the locality involved has entered into an agreement with the public housing agency providing for the local cooperation required by the authority pursuant to this Act \* \* \*" (sec. 15, 7(b) of the act of 1937, as amended). The content of the cooperation agreement may vary somewhat, but it includes acceptance of the 10 percent of shelter rent in lieu of taxes; i.e., the local subsidy without which no Federal subsidy can be made and without which there can be no low-rent housing. How many city councils would enter into such an agreement for housing on an unspecified site, to be erected by an unspecified builder, under unrevealed terms and conditions, in a secret agreement between him and the local housing authority? Some, perhaps, but certainly not many.

Our conclusion on this dispute is that the alleged advantages or merits of secrecy in the turnkey process are somewhat illusory.

One other point about turnkey needs to be made. Even when there are public hearings, the effect of the turnkey method is to place the local builders and real estate community on the side of turnkey and public housing. This is a tremendous advantage over the past when these forces often opposed rather than supported the program. In fairness, it should also be said that many, perhaps a majority, in the homebuilding industry have in recent times supported public housing. This is especially true of their progressive-minded national leadership.

The essence of the turnkey method, however, should be distinguished from some of the claims



## EXHIBIT A.—PROCESSING TIME INVOLVED IN PUBLIC HOUSING (CONVENTIONAL LOW-RENT HOUSING PROGRAM)

Step	Agency and office	Action taken	Days
<b>APPLICATION FOR PROGRAM RESERVATION AND PRELIMINARY LOAN</b>			
1	Local housing authority	Prepare for, coordinate with appropriate local departments, adopt resolution to submit	50
2	Local governing body	Adopt resolution approving submission for application	
3	Regional office:		
	Housing assistance office:		
	Program reservation and income limits	Receive, log, review for completeness	4
	Do	Review for conformance to policy, prepare memo, summary and recommendations	20
4	Local	Review legal documentation	25
5	Housing development	Review, recommend	2
6	Local	do	1
7	Intergroup relations	do	2
8	Management	do	2
9	Assistant regional administrator for housing assistance	do	1
10	Program coordination:		
	Economic analysis	do	1
11	Workable program	Review, note status of community workable program	1
12	Regional administrator	Review, recommend	1
13	Central office:		
	Housing assistance administration:		
14	Processing control	Receive, log	1
15	Statistics	Extract statistical data	1
16	Program reservation and income limits	Review for conformance to policy	6
17	Intergroup relations	Review, comment	4
18	Legal	do	2
19	Processing control	Prepare approval letter to local housing authority	1
20	Deputy assistant for housing assistance	Final approval of program reservation; letter to local housing authority	1
	Processing control	Notify record office	1
<b>PRELIMINARY LOAN</b>			
20b	Processing control	If application requests preliminary loan, check to see if workable program satisfied. If not, hold. If so, prepare preliminary loan list.	1
21	Development	Review, comment	2
22	Legal	do	3
23	Deputy assistant for housing assistance	Review, recommend	1
24	Workable program staff	Check for workable program compliance	2
25	General counsel	Review, comment	2
26	Assistant secretary for renewal and housing assistance	Final approval	2
27	Public affairs and congressional services	Advise appropriate elements and publish	5
<b>DEVELOPMENT PROGRAM AND ANNUAL CONTRIBUTIONS CONTRACT</b>			
28	Local housing authority	Execute preliminary loan contract, select site, prepare development program	100
29	Local governing body	Approve site, authorize submission of development program	
30	Regional office:		
	Housing assistance office: Housing development	Receive, log, if application involves relocation, send to relocation branch and hold. Review for conformance to policy, prepare summary, memo, recommend.	8
31	Program coordination: Relocation	Review, comment	10
32	Housing assistance office:		
	Planning	do	5
33a	Program reservation and income limits	Review, recommend	3
33b	Local	do	2
33c	Intergroup relations	do	3
33d	Management	do	2
33e	Land	do	2
34	Assistant regional administrator for housing assistance	do	1
35	Regional administrator	Review, recommend, send to central office	3
36	Central office:		
	Housing assistance administration:		
37	Processing control	Receive, log	1
38	Design services	Review, comment	3
39	Processing control	Prepare annual contributions contract list	1
40	Development	Review, recommend	2
41	Legal	do	2
42	Deputy assistant for housing assistance	do	1
43	Workable program staff	Check for workable program compliance	2
44	General counsel	Review, comment	2
45	Assistant secretary for renewal and housing assistance	Final approval	2
	Public affairs and congressional services	Advise appropriate elements and publish	5

Source: Study by Model Cities Systems Improvement Team, HUD, June 23, 1967.

that may be made for it. As the Defense Department has demonstrated, truly competitive bid contracts are far superior to sole-source negotiated contracts, so far as cost is concerned. The latter do save time, however, as compared to the long process of advertised competitive bids.

The turnkey plan should be given a thorough trial and its merits carefully appraised. Perhaps having the two systems compete with each other will be good for both. This is especially

true since conditions in the housing industry, particularly the relationships between the main contractors and subcontractors, are such that what is called the competitive bidding system in public housing is not found in comparable form elsewhere.

The increase in new public housing starts from 1967 to 1968, which number about 10,000 in all, appear to be chiefly the result of the turnkey method.

Lessons might also be learned from the cooperative housing movement, where construction costs have been reduced by a variety of methods. If they were applied to public housing, it would make it possible for the same number of units to be built at lower cost, or to provide additional units from the savings made.

Finally, there are repeated criticisms that the physical standards of construction in public housing are excessive. These are required largely to reduce future maintenance costs under hard usage. But with the shift to more small-scale projects, scattered sites, and fewer high rises, these standards, too, might be reduced.

All of these points are important if we are to meet the housing needs of low-income families. More, much more Government money for public housing is needed, but it is not the only ingredient in a more effective program.

#### *High-rise and massive public housing projects*

The general tendency in recent years on the part of too many public housing authorities has been to emphasize high-rise and large-scale apartment projects. This trend has been caused by many factors, notably the refusal of the dwellers in the suburbs and in the outer and middle-class sections of the cities to accept public housing. This, in turn, has driven public housing closer to the center of the cities where land costs are high. The high cost of land and the continued immigration of low-income families have then led public housing authorities to construct high-rise buildings in order to get as many housing units as possible on each acre of land. (Of course, one of the main purposes of subsidized urban renewal is to offset the influence of high land prices on the nature and density of redevelopment, but as will be pointed out later, renewal to date has largely ignored low-income housing.) Suburbanites and middle-class residents who criticize the huge projects in the central city and who, at the same time, oppose any projects in their neighborhoods, should realize that their refusal to permit the diffusion of public housing is a major factor in creating the concentration they deplore.

Fortunately, because of both internal and external criticism, such as that brought forth at the hearings of this Commission, and from a directive in the 1968 Housing Act, this policy is changing.

Perhaps the theories of such architects and city planners as Corbusier also had a share in this influence on height. They stressed "skyscrapers in a park," and thereby gave some popular acceptance to the idea of high-rise

apartments of the skyscraper type as desirable residential forms. The giant Pruitt-Igoe project in St. Louis for 3,500 families was awarded a prize for the excellence of its design. Now it is universally admitted to be inferior; many people would say a disaster.

High-rise projects which may have been inevitable on Manhattan and perhaps necessary near downtown Chicago have been built rather indiscriminately in many cities and sections. In New York and to a certain extent in Chicago, skyscraper living is practiced by the well to do, and does not single out the poor. It may, in fact, give a certain social prestige to some. But in most cities of the country, high-rise public housing units clearly indicate what they are—large congregations of the poor. They stand out in many communities like so many sore thumbs.

This concentration of large masses of the poor necessarily gives to many of them a pronounced feeling of inferiority in a society that emphasizes material success. The effect is especially marked among children. To a somewhat lesser degree it is similar to what youngsters used to feel and suffer who grew up in the "poorhouses" and "poor farms" of an earlier generation.

Moreover, the larger the project, the greater are the problems of social behavior. In these huge projects, it is difficult for the occupants to feel any real concern for the group as a whole or any fundamental loyalty to it. This in itself breeds a lack of responsibility and a yielding to antisocial impulses which may range all the way from a lack of care in maintaining a property to outright vandalism. Thus in some projects the breaking of windows is widely evident. Similarly the breaking open of mail boxes and telephone coin boxes is frequently prevalent. Even worse are assaults and robberies committed against fellow occupants and visitors.

Not only do the large projects encourage such antisocial acts, but they also make their detection and prevention more difficult. In a smaller project it is easier for families and youths to identify themselves with the welfare of their unit, and if some go wrong, for them to be detected and punished. In a huge project they are relatively anonymous and their faces will not be known. They can melt back into the crowd and seek refuge within the long corridors and on the many floors.

In the future, local and State housing authorities with the encouragement and help of HUD should seek out more and more scattered sites where smaller public housing developments may be built.



A blanket indictment of high-rise housing is not the intention of the Commission. The term "high rise" itself does, in fact, bring to mind images of some of the most inhospitable housing now being constructed with Federal subsidy. But we feel that no form of technique for providing low- or moderate-income housing should necessarily be written off because of the prejudicial connotation of its generic type.

We have seen much bad high-rise housing, but we have seen some good examples, too, especially for the elderly where it is appropriate. In areas of high land costs and dense population, we believe it is possible to provide high-rise housing that is attractive and livable for large families as well as for small or contracted households. Development and research are necessary, but a number of examples already exist that show the potential of the high-rise type, using varied heights, above-ground common space, developed roofs and terraces, duplex and triplex units, and other devices where there are no practical alternatives to the type.

Many examples in England, Holland, and Scandinavia give evidence of several of the new directions high-rise subsidized housing could take in this country.

Housing regulations often restrict the kind of evolutionary development essential for better high-rise housing. Where no such regulations exist, desirable high-rise housing has been provided.

The physical context in which a building is located has much to do with its desirability and acceptability. A high-rise building in a community where other forms are the common practice stands out by its mass and its relative density of population; where such a building further identifies the poor family in a community, its social disadvantages are magnified.

In limited circumstances well-designed high-rise structures may house poor families, but additional services are required to do so effectively.

### *Horizontal cities*

Another factor is often lost sight of by observers closely oriented to New York. With the exception of Manhattan and certain other parts of New York City, American cities are still primarily horizontal in form rather than vertical. The single-family or two-family home of generally no more than two stories predominates. This is true even of such a large city as Chicago. It is emphatically true of such cities as Philadelphia, Baltimore, and Los Angeles. Even the

old style New York tenements are rarely more than four or five stories.

In most of these places it is not necessary to build massive skyscraper projects in order to house a larger number of people. By redesigning and closing off excessive street space and by pooling small front and back yards, garden apartments of the walkup type not to exceed three or four stories can be built that will house a much larger population than now and do so under better conditions. These units will, as a consequence, be much smaller than the giant projects of the Robert Moses era in New York, Pruitt-Igoe in St. Louis, and the Robert Taylor homes on South State Street in Chicago.

As suggested above, in these smaller units greater loyalty and sense of responsibility can be developed among the occupants and delinquent behavior can be better controlled. Walkups will cost less per square foot, since they will avoid the expense and loss of space needed for elevators and the construction materials need not be so heavy. It is along these lines that we believe the developments of the future can be largely based.

Included in any such program should also be the purchase and rehabilitation of large numbers of single-family homes and rowhouses, which are being abandoned by their owners in such places as Philadelphia, the Brownsville section of Brooklyn, and the West Side of Chicago. These can frequently be purchased at distressed prices for as little as \$1,500 or \$2,500. When the walls, foundations, and general structures are still sound (as they frequently are), they can then be rehabilitated at reasonable cost. If a considerable group is not structurally sound, the parcels can be combined, the buildings demolished, and a project constructed on the site.

A more individualized treatment can and should be carried out in the larger units as well as in the smaller. The elderly can be housed in stories above the fourth floor to which they alone can have access by a special entrance and elevators reserved only for them. In this way the danger from the unruly might be reduced. Similarly, several separate entrances entered by key can be devised for families using sections of the first four floors so that these in turn can be subdivided into coherent groups.

If any portion of the new buildings is to be many storied, this can be in the form of one or more towers with separate entrances, while other entrances will admit to the three- and four-story sections. In this way monotony of de-

sign can be avoided and the possibilities of variation with different levels created.

### *The problem of sites*

*Vacant land.*—One of the crucial deterrents to the construction of houses for low-income Americans has been the problem of sites. Time and again when one complains at the slowness of public housing or moderate-income housing programs, the problem of sites is given as a major roadblock. Yet there is much more land on which to build than is generally recognized.

According to a special study by the census in 1966, vacant lots accounted for 19 percent of taxable realty in the Nation's 228 SMSA's. It may be said that since SMSA's include not only central cities but suburban areas as well, this is not a true measure of the amount of empty land in central cities. This is a fair warning against giving too much weight to these figures. It is also true, of course, that because of their location, some of these vacant parcels are not good for housing—certainly not for housing in a suitable living environment. But the facts are that in 119 of the 130 cities of over 100,000 population, there are 11 million parcels of land of which 11.6 percent are vacant lots. The figure for New York City is 8.1 percent;<sup>16</sup> it is 11 percent for Chicago, and 9.4 percent for Los Angeles. Even in Harlem, 2 percent of the lots are vacant. When the sites on which there are dilapidated buildings are added, an increasing number of which are owned by the cities as a result of default in taxes, the amount of buildable land is considerably swelled.

Although there are formidable problems with respect to cost and location, these vacant lots and potential sites could supply much of the space for public and moderate-income housing in our central cities as well as elsewhere.

*Government land.*—There is a large amount of Government-owned land on which housing could be built. The Federal Government has been making a survey of this land, which we know to be extensive. We will only mention such examples as Fort Jay in New York City, the National Training School site in Washington, D.C., Fort Sheridan, north of Chicago, and Fort Snelling, outside of Minneapolis-St. Paul. The President began, in 1968, to put some of

this land to use, by designating the National Training School site for a "new-town-in-town" in the District of Columbia. This program can be greatly expanded. A warning should be added, however, that such sites must not be devoted to luxury housing, but rather should contain a considerable proportion of low- and moderate-income housing to meet the Nation's most desperate needs.

*VA and FHA foreclosed dwellings.*—There are large numbers of VA and FHA foreclosures each year. Some of these could be leased by public housing authorities to house those families who are "upwardly mobile." In fiscal 1967, there were 21,217 VA claims (tantamount to foreclosure), and in calendar 1967 about 53,000 FHA foreclosures, of which 44,062 units were sales housing and 8,886 units were in 67 projects.

*Urban renewal sites.*—The latest figures show that less than half of urban renewal land has been committed to the construction of specific buildings. Not all of these sites would be appropriate for public or moderate-income housing. But in view of the crisis in our cities, a continued reexamination of the existing sites should be made to see if a great many more of them cannot be used for public and moderate-income housing. There are vast empty acres in Cleveland and Detroit, to name only two cities. We believe that the President should call together the mayors of the major cities where urban renewal sites remain uncommitted and urge them to use portions of these sites to build a vastly increased amount of public and publicly assisted housing.

Under urban renewal, approximately 400,000 housing units have been demolished. By definition, most of these were units in which low-income citizens lived. The number of units planned, under construction, or completed in urban renewal areas is approximately 200,000, or one-half the number demolished, but to date only about one-tenth—20,000—are for public-housing units. This is one-twentieth of the number of units destroyed.

Even under the terms of the 1968 Housing Act, which calls for building at least 50 percent of all housing in future urban renewal projects for low- (20 percent) and moderate-income groups, this would not happen automatically. First, that provision does not apply to existing projects, but only to future projects. Second, it says nothing about the total volume, which may be low.

We urge building low-income housing on existing sites, yet uncommitted, and with much

<sup>16</sup> The Metropolitan Housing Council in New York City has completed an excellent detailed survey of all 5 boroughs of that city and have found no less than 122 prime locations which are now vacant and scattered. They estimate that without crowding, a total of 12,200 housing units could be built on these lots. Following the present ratio, this would mean housing for a total population of about 46,000. But this could be somewhat increased by adding more bedrooms, as we have advocated, so that up to 50,000 could be housed. See, *A Citizens' Survey of Available Land*, Metropolitan Council on Housing, New York, 1964.



larger volume than in the past or that the urban renewal officials now contemplate.

*Extraterritorial leasing.*—As proposed elsewhere in this report, State-enabling legislation should be amended to allow central city housing authorities to lease housing in suburban areas subject to specific conditions.

*Underused land.*—There is additional land which could be redeemed for housing purposes by a consolidation of unsightly junkyards, and tumbledown shacks and buildings. In most cities which front on rivers, lakes, and the ocean there are large sections which are either vacant or are eyesores. Can they not be redesignated, renovated, and used to house lower income families? With the decline in both passenger and freight service on the railroads, there is, in the former switching yards, large acreage which now lies idle in almost every American city. For years, those who have crossed the Roosevelt Road viaduct in Chicago have seen to both north and south a wide expanse of tracks which are virtually vacant throughout the day. Farther out in the suburbs there are even more extensive traffic separation yards which now give little promise of being fully used. These sites, properly developed, offer opportunities for housing construction in or near the central cities.

For some cities which are especially pressed, there are possibilities of using air rights (the space above expressways, for instance) for housing. Although there are many serious problems associated with it, particularly in housing low-income families with children, its possibility may be considered.

*Land for the living?*—Is it sacrilegious to mention the vast amount of space now locked up in cemeteries? As one flies over Brooklyn, for example, one sees it in part as a necropolis, or city of the dead, almost comparable to those outside Oaxaca in Mexico. Some years ago the Quakers in Philadelphia turned over to the community most of their 17th and 18th century cemeteries and asked that they be made into parks and playgrounds. Is it beyond hope that other religious groups will do the same for both of these purposes, as well as for the housing of the needy? The remains of those buried in isolated family cemeteries have been transferred to other resting places because of the construction of the TVA and other dams. Might not a similar practice be accepted if it made possible the better housing and rearing of children? The earth was made for the living rather than the dead. Once public opinion generally accepts this point of view, new spaces will open up.

*Open housing.*—We believe that the problem of location is manageable within most of the central cities. In a separate study that has been made for the Commission, a probable total increase in population of only 7.4 millions by 1985, or 13 percent, in the central cities is projected.<sup>17</sup> This may even be an overstatement. The increase in the nonwhite population is, however, projected at the higher rate of 94 percent, an increase from a total of 10 million to a total of almost 20 million. The total number of whites in the central cities is projected to decline by 2.4 million. The sites for the increased housing needs can be found by some of the means we have indicated.

The real strain is going to be in the suburbs. The Commission's population consultants project a gigantic total growth of 58 million in the suburban population, unless artificially impeded, which will amount to 106 percent. Nonwhite groups will show a projected increase of only 4 million. Whether or not this rate will be increased or decreased will depend primarily upon the decisions of the residents of these localities, their States and the Nation. While, at the moment, public opinion in these localities is hostile to the reception of the poor in general and particularly to the nonwhite poor, there are some encouraging signs. Thus an occasional political leader such as the late David H. Scull of Montgomery County, Md., has stressed the need for the suburbs to help bear the burden of urban poverty. Various church groups and clusters of concerned citizens have shown a similar interest. Other suburban communities such as Arlington County, Va., have adopted relatively liberal fair-housing ordinances, while a number of towns in the Chicago suburbs, such as Evanston, have taken similar steps. Although communities such as Cicero, Ill., and the suburbs of the wealthy outside of Chicago, Philadelphia, New York, and other cities seem to be unyielding in their exclusiveness, is it beyond hope that they too may change with time?

But unless there is a general adoption of more liberal policies, the coming years may well see a deep struggle over these and attendant issues that will increase hatreds and conflict. We believe that it is the duty of all good citizens to try to prevent this by constructive acts of good will, and that all levels of government can and should act vigorously in this direction.

<sup>17</sup> "The Challenge of America's Metropolitan Population Outlook," 1960 to 1985 by Patricia Leavey Hodge and Philip M. Hauser. Research Report No. 3, National Commission on Urban Problems, 1968.

### *The disregard of large families*

One of the major weaknesses of the public housing program has been the disregard of large families and the emphasis on units built. The housing of small families and elderly people has been pushed by the local housing authorities and HUD while the housing of the larger families and the children have been slighted. HUD has had an administrative limit of \$20,000 for a unit of public housing, including land acquisition and development and demolition costs. We should again emphasize that this limit was not imposed by Congress which, since 1949, fixed its maximum on per room costs for construction and equipment, not on a unit base.

Over and over again in our hearings, we heard complaints about the lack of houses for large poor families.<sup>18</sup> That is why the Commission decided to make a detailed investigation into this matter,<sup>19</sup> as described in the chapter on housing needs.

Those directing public housing have concentrated on getting as large a number of housing units as possible built for a given amount, rather than on taking care of the maximum number of people. This has increased their statistics on construction, but it has led them to build units with fewer rooms than the needs justified.

This was the same fault Margaret Sanger observed in Glasgow more than a half century ago. Small families there were relatively well taken care of, but large families had to live in miserable hovels on the outskirts of the city. The moral from these facts is clear. If public housing is to serve the people who need it most, a far larger proportion of the apartment units should have three and four bedrooms, with some five- and six-bedroom units as well. And to effect this, the administrative ceiling on the cost per apartment should be withdrawn and forgotten.

Here, again, the situation would be notably different if most public housing were on renewal sites, with land turned over to the housing authority at "use value." Even under the present standard of \$2,400 per room for construction and equipment cost, a seven-room unit (5 bedrooms under the customary way of counting unit size) would come to \$16,800. This would leave \$3,200 per unit, within the \$20,000 limit, for land, demolition, and nondwelling facilities, which would seem a reasonable amount.

### *Square-foot costs*

In the quest to reduce waste, attention should be centered far more on cost per square foot or

per room than on cost per housing unit. Legislative bodies and the general public as well as the housing administrators should be governed by these principles. This has an obvious implication concerning the relative distribution of housing as between the families with children and the elderly. It is important to take care of the elderly, but it is even more important to take care of the young.

Since we are properly advocating a large increase in the amount of housing to be built for the poor, this does *not* mean that the total number of housing units to be built for the elderly should be decreased. It should not only be maintained, but even increased. But it does mean that the emphasis should be on families with children. The units designed for them should be increased even more rapidly. We are aware that this will add to the difficulty of obtaining the consent of local groups to public housing, and of effecting racial integration within the projects. The general public will accept both of these programs more readily for the elderly than for the young. But if we are to provide for human needs instead of trying to swell statistics, we see no other defensible course of action.

The Commission realizes, however, the implication as regards very large families which the adoption of such a child-centered policy creates. The community should help the human beings who have been born. But certainly the families involved also owe an obligation to the community not to bring an undue number of children into the world. The community should lessen the degree to which this is done through ignorance.

It is, therefore, important to extend family planning in its practical aspects to the families living in public housing. The ultimate decision should, of course, be made by the persons concerned, but they should be furnished with the information and means to limit the number of their offspring, should they so desire.

### *Need for service*

A serious defect in the construction and staffing of many public housing projects has been the failure to provide adequate space and personnel for services the occupants sorely need. This has probably been the fault of Congress more than of the administrators. The results, nevertheless, have been highly unfortunate.

Many of the poor people who are admitted to a housing project have severe problems which cannot be solved merely by providing them with decent shelter.

Each project should include one or more day-care centers which will permit the mothers to work where this is desirable, and which can be operated in part or in whole by fees based on

<sup>18</sup> See *Hearings Before the National Commission on Urban Problems*, Vol. 2, pp. 142, 253. Vol. 3, pp. 355, 367-70.

<sup>19</sup> *The Large Poor Family—A Housing Gap*, by Walter Smart, Walter Rybeck, and Howard E. Shuman. Research Report No. 4, National Commission on Urban Problems, August 1968. Also Part II, Chapter 1, of this report.



the outside earnings of the mothers. (Where a considerable proportion of public housing is on scattered or vest-pocket sites, none of which could support such a center alone, it should be possible to locate the center in units that are reasonably central and accessible.) There should be rooms for these, as well as meeting places and activity centers for large and small groups. A modest staff of social workers can also be provided to counsel residents and, without stirring up artificial grievances, help them to obtain their rights under welfare, etc. These services should be available to all in the surrounding neighborhood in order to avoid the creation of an especially favored class dwelling in the public units. Such services will be all the more necessary as the proportion of families with children in public projects increases.

#### *Failure in design*

Up to the present, public housing has generally failed to produce imaginative design of buildings and open spaces. The structures are often monotonous and mediocre. There has been little effort to develop the vacant spaces between buildings so that they can and will be used by children and by families in constructive activities. There has been a passive acceptance of open space rather than an effort to use it in a meaningful fashion. The doctrine of "skyscrapers in a park" has been followed too literally. As a result, in many of the projects we visited in all parts of the country, one does not find many children playing after school hours or families engaged together in outside activities. The open space is largely "dead" space.

Housing authorities have been held back from carrying out unusual or imaginative developments by the fear that they would be criticized by influential sections of the public, and their fear may well have been justified. Also, the congressional admonition that public housing shall " \* \* \* not be of elaborate or extravagant design or material \* \* \*," although not contrary to what we have in mind, may have been a deterrent. So, also, may have been some of the adverse criticism of "experts" from the Comptroller-General's office on various details of design and construction; e.g., their condemnation of sensible and inexpensive concrete block supports to prevent garbage cans from being easily overturned by dogs or children. But we hope that this attitude will change, and we believe it would if some bold authorities were to take the initiative. The new Housing Act gives much greater leeway in this respect.

A precedent has been created by the gifts of Mrs. Vincent Astor for the provision of such facilities in the central and adjoining malls of the Riis Homes in New York. Here, play ap-

paratus, wading pools, and small amphitheatres as well as many trees and comfortable benches provide opportunities for people of all ages to enjoy being out of doors, and add greatly to the attractiveness and livability of the project.

#### *Training*

We believe that HUD in cooperation with local housing authorities could make a valuable contribution by promoting two types of courses for the personnel connected with the management of publicly assisted and limited-dividend housing. The first would consist of refresher courses for existing project managers and personnel. The second, in cooperation with appropriate universities, would assist in training men and women to enter these professions. Subjects to be treated would include how to deal with maintenance, repairs, and upkeep; the fixing and collection of rents; the selection of occupants; the problem of security and behavior; the adjustments of grievances; the stimulation of constructive activities; control over dismissals; relationships with the outside community; and the improvement of the general environment. These should result in making the projects at once more efficient and more liveable. They would help to offset the tendency of every bureaucracy, private or public, to become self-satisfied and inert.

#### WHY HAS PUBLIC HOUSING FALTERED?

In the preceding pages and elsewhere in this report are statistics on the sorry showing in the volume of public housing built over the past 30 years. The actual situation is, in fact, worse than the figures indicate, for more than half of the total units built in recent years were specifically for the elderly. Moreover, a large portion of the remaining number intended for families were built in the smaller cities, which either had a comparatively small Negro population or had very few previous units of public housing. Thus the great need of the large central cities for housing for poor families was largely unmet.

Except in a few cities, the public housing movement has been at a virtual standstill. Many cities which had asked for and received authorizations found it politically inadvisable to proceed, and have allowed their commitments to lie idle.

Administrative officials sometimes offer the excuse that Congress, by fixing low yearly ceilings on the numbers of units to be authorized, is really responsible for the failure of public housing to gather much momentum. It is true that Congress in the past fixed limits far below those originally contemplated in the 1949 act and opponents of public housing in Congress must cer-

tainly share some of the blame. These ceilings varied from year to year, but generally ranged around 35,000 to 37,500 units. In 1965, however, the yearly ceiling for each of the next 4 years was raised to 60,000 units, or a total for the period of 240,000.

The authorities therefore have had ample room within which to operate and cannot blame Congress for deficits within this period. Significantly, the cities as a whole have never built public housing to the level which was authorized. Almost alone among the great cities, New York has moved ahead until today from all sources—Federal, State, and local—it has approximately 150,000 units in operation. In the middle 1950's, the country, however, constructed from 15,000 to 25,000 units a year less than permitted, while in 1966 and 1967 only about half of the enlarged quota was filled. In city after city the Commission visited, the construction of units for families had slowed down or stopped and few or no public housing units were being constructed.

In fairness to local housing authorities, their difficulties in maintaining good personnel and morale should not be overlooked or minimized. When a program runs into years of slow activity and uncertain future, inevitably it loses many of its more vigorous, able and dedicated people. They go into other activities with more immediate challenge and longer term promise. This has happened to local housing authorities throughout the country. When Congress doubles the annual authorization, the response is not and cannot be immediate or automatic.

Neither should the amount and kind of organized opposition to public housing be overlooked. For some 12 or 15 years the real estate lobby, so-called—a loose confederation of trade associations of house builders, realtors, mortgage lenders and material manufacturers—directed a stream of vehement and sometimes vicious propaganda against public housing. It was communism, un-American, or plain silly; "Do you want to pay somebody else's rent?" When attempts were made by public housing advocates to placate the opponents, they accepted the limitations offered—e.g., the 20 percent gap of the act of 1949. But opposition continued in cities throughout the country, often with slogans and arguments that would not have been used before Congress. One anti-public housing leader once accused Senator Taft of following the "Communist line" on housing. Part of this campaign was motivated by trade association politics. Trade associations are supposed to protect their members from threats to their interests. If the times are a little short on genuine threats, it often is not hard to manufacture one or two.

In recent years this antipublic housing campaign has considerably abated. Nevertheless, the steady harmering of the opposition over many years surely accounts for some of the remaining misunderstanding of public housing, as well as for much of the indifference and hostility it still encounters in many quarters.

### *The roots of opposition*

The opposition to public housing, based on a four-fold set of objections, has been strong almost from its beginning in this country. It is compounded of several elements: (a) a dislike of public activity in such an intimate family matter as housing; (b) the fear of undue government expenditures; (c) a desire to keep the poor physically at a distance; and (d) deep racial prejudices on the part of some whites. The latter two deserve special attention. They are evident almost everywhere in this country. Public housing is by definition and intent housing for the poor. About one-third of the urban poor are nonwhite, and more than half of the families in public housing are black. Thus these two major sources of opposition combine and fuse into a so far unyielding roadblock.

Many of those who are not poor do not want the poor to live near them. They are not comfortable in having even the white poor shop by their side, mix socially, or send their children to the same schools. It is true, as Michael Harrington has stated, that many of the well to do want the poor to be invisible. This attitude may be strongest in times of fairly widespread economic prosperity.

Well over a century ago, the rising leader of British conservatism, Benjamin Disraeli, wrote a novel entitled "Sybil—Or the Two Nations," about the rich and the poor. The former did not want the latter to be seen or heard. But this attitude is by no means limited to the affluent. Those not far above the poverty line often seem quite as determined to shun the poor, especially if the slightly more well to do have reached this position only recently and those in poverty are of a different ethnic group. Although it is rarely pointed out and is a very unpopular truth today in some quarters, economic class discrimination is not a monopoly of white people. Many of the more well-to-do Negroes have a full quota of it. In fact, one of the bitterest complaints of many middle class Negroes is that racial discrimination prevents them from getting away from the congestion, bad housing, depressing environment, high crime and delinquency areas of the poor. Middle class whites can and do escape; middle class blacks cannot—at least not nearly as easily or completely.



*Economic opposition.*—A substantial part of the opposition to public housing is economic. It is based on the fear that if lower income folk, especially lower income Negroes, come into the neighborhood, crime rates go up and a slatternly pattern of house care develops, which, among other factors, tends to lower the price of real estate and endanger the painfully acquired savings the residents have invested in their own homes. People who support a generally liberal policy in social legislation often balk at having Negroes become near neighbors. They might support a civil rights program to reinforce equal rights to vote, to legally desegregate public education in the South and to guarantee Negroes equal access to public accommodations. But many want the neighborhoods where they live to remain racially segregated. The higher paid unionists who have moved into the suburbs and middle class neighborhoods are in this respect not much different from their other white neighbors. They turn a deaf ear to the injunctions of their more liberal-minded leaders who, remembering their struggles to organize in the late thirties and early forties, still retain a large share of their earlier idealism. With de facto segregation in housing practiced in the North, neighborhood schools have become, in fact, largely segregated as well.

The objectors, whether vocal or silent, are not bad men and women and should not be treated as such. They are, instead, very human. They worry about their savings, their homes, their neighborhoods, and their children, and they are often disturbed to find old, subconscious and hidden prejudices coming to the surface.

It must be recognized that the slowdown in public housing was, in essence, an informal public decision to which most Federal officials, somewhat bruised and weary from the long battle, felt obliged to conform. These officials had largely lost their earlier drive. While the public had the impression that at least limited housing gains were being made, in the central cities the decay and deterioration of existing houses and neighborhoods was progressively faster than curative efforts at improvement.

Because hopes, expectations, and claims had been pitched too high, disillusion set in when it became evident that the expectations were not being met and that the obstacles were more formidable than had been expected. White journalists took up the attack on public housing, as did black militants. There seemed to be few left to defend the earlier vision or to help make the dream come true.

This seems to us the sad truth; the public housing program has been slowed to a faltering walk largely by economic-class and racial antagonisms. Other conditions and influences have

played considerable parts, but they have been and are relatively secondary. Only more confusion and frustration can come from evading this fact. It would be equally futile either to pretend that some new twist or gimmick in the subsidy formula would make much difference or to condemn out-of-hand all changes in law or administrative procedure, including such combined operations as are now being tried out in the model cities program. And, there has been some distinct improvement over the last year or two when public housing starts rose from the general level of about 30,000 a year to 45,000, or a 50-percent increase. But this is still well below the 60,000 authorization although rent supplements, leased public housing, and other programs raised the number of units available for occupancy, as opposed to new starts, to a respectable level.

### *The Housing Act of 1968*

Despite all the attacks against public housing, Congress moved forward in 1968. While this Commission was holding its public hearings, conducting its research and threshing out its recommendations, Congress was considering what ultimately became the Housing Act of 1968. The changes brought about in public housing are considerable. It is possible that in some small measure our work may have helped to influence the final form that measure took. These and other major features of the act of 1968 are discussed in chapter 8, part II of this report.

TABLE 10.—STARTS AND COMPLETIONS OF PUBLIC HOUSING UNITS IN THE 50 STATES, 1939-68 (NOT INCLUDING PUERTO RICO AND THE VIRGIN ISLANDS)

Calendar year	Starts	Cumulative started	Completions	Cumulative completed
1939			4,960	4,960
1940			34,308	39,268
1941			61,065	100,333
1942			36,172	136,505
1943			24,296	160,801
1944			3,269	164,070
1945			2,080	166,150
1946			1,925	168,075
1947			466	168,541
1948			1,348	169,889
1949	684	684	547	170,436
1950	30,958	31,642	1,225	171,691
1951	69,224	100,866	10,246	181,937
1952	55,514	156,380	58,258	240,195
1953	31,785	188,165	58,214	298,409
1954	16,244	204,409	44,293	342,702
1955	8,568	212,977	20,899	363,601
1956	4,916	217,893	11,993	375,594
1957	20,850	238,743	10,513	386,107
1958	22,602	261,345	15,472	401,579
1959	15,824	277,169	21,939	423,518
1960	29,209	306,378	16,401	439,929
1961	30,493	336,871	20,965	460,894
1962	22,402	359,273	28,682	489,566
1963	24,030	383,303	27,327	516,893
1964	25,581	408,884	24,488	541,381
1965 <sup>1</sup>	33,172	442,056	30,769	572,150
1966 <sup>1</sup>	31,834	473,890	60,825	602,975
1967 <sup>1</sup>	33,658	507,548	29,948	632,923
1968 <sup>2</sup>	46,000	553,548	34,326	667,249

<sup>1</sup> Completions for these years include leased housing.

<sup>2</sup> Preliminary figures for fiscal 1968, not calendar 1968.

Source: Department of Housing and Urban Development, HAA, Statistics Branch.

TABLE 11.—VACANCY RATES AND ANNUAL PERCENTAGE TURNOVER RATES IN PUBLIC HOUSING PROJECTS IN THE 50 LARGEST CITIES IN THE UNITED STATES, 1966-67

City (by population)	Total public housing units under management (Sept. 30, 1967)	Number of units vacant (Sept. 30, 1967)	Percent of housing units vacant	Number of units vacated during year 1966-67	Percent turnover of housing units in year 1966-67
New York, N.Y.	64,157	117	0.2	3,682	5.7
Chicago, Ill.	32,431	173	.5	3,198	9.9
Los Angeles, Calif.	9,198	334	3.6	3,593	39.1
Philadelphia, Pa.	15,223	218	1.4	2,516	16.5
Detroit, Mich.	8,180	75	.9	1,181	14.4
Baltimore, Md.	10,314	205	2.0	1,777	17.2
Houston, Tex.	2,562	110	4.3	698	27.2
Cleveland, Ohio	7,458	160	2.1	1,169	15.7
Washington, D.C.	9,773	129	1.3	1,466	15.0
St. Louis, Mo.	7,014	910	13.0	1,107	15.8
Milwaukee, Wis.	3,066	140	4.6	403	13.1
San Francisco, Calif.	5,808	65	1.1	1,329	22.9
Boston, Mass.	10,857	571	5.3	1,438	13.2
Dallas, Tex.	6,372	763	12.0	1,832	28.8
New Orleans, La.	12,270	87	.7	2,052	16.7
Pittsburgh, Pa.	9,213	531	5.8	1,097	11.9
San Antonio, Tex.	5,353	175	3.3	1,800	33.6
San Diego, Calif. <sup>1</sup>					
Seattle, Wash.	3,520	46	1.3	1,048	29.8
Buffalo, N.Y.	4,367	126	2.9	801	18.3
Cincinnati, Ohio	6,118	143	2.3	1,149	18.8
Memphis, Tenn.	5,045	3	.1	874	17.3
Denver, Colo.	3,346	32	1.0	1,063	31.8
Atlanta, Ga.	8,979	79	.9	1,727	19.2
Minneapolis, Minn.	3,258	12	.4	650	20.0
Indianapolis, Ind.	748			199	26.6
Kansas City, Mo.	2,379	332	14.0	751	31.6
Columbus, Ohio	2,854	17	.6	581	20.4
Phoenix, Ariz.	1,604	42	2.6	734	45.8
Newark, N.J.	10,766	240	2.2	1,340	12.4
Louisville, Ky.	4,992	100	2.0	915	18.3
Portland, Oreg.	1,337	3	.2	339	24.6
Oakland, Calif.	1,907	10	.5	263	13.8
Fort Worth, Tex.	1,074	177	16.5	266	24.8
Long Beach, Calif. <sup>2</sup>		20		365	
Birmingham, Ala.	5,523	39	.7	1,071	19.4
Oklahoma City, Okla.	771	10	1.3	283	36.7
Rochester, N.Y.	136	36	26.5		
Toledo, Ohio	1,789	6	.3	307	17.2
St. Paul, Minn.	2,333	17	.7	554	23.7
Norfolk, Va.	3,720	10	.3	620	16.7
Omaha, Nebr.	2,441	83	3.4	748	30.6
Honolulu, Hawaii	2,299	60	2.6	525	22.8
Miami, Fla.	4,258	59	1.4	653	15.3
Akron, Ohio	550	15	2.7	198	36.0
El Paso, Tex.	1,650	81	4.9	313	19.0
Jersey City, N.J.	3,804	226	5.9	1,466	38.5
Tampa, Fla.	3,692	71	1.9	953	25.8
Dayton, Ohio	2,334	1	0	435	18.6
Tulsa, Okla. <sup>3</sup>					
Total	315,883	6,864	2.2	51,529	16.3

<sup>1</sup> No program. <sup>2</sup> Used reports for North Long Beach. <sup>3</sup> No units occupied until Oct. 16, 1967.  
Source: Department of Housing and Urban Development, HAA, Statistics Branch.

TABLE 12.—NUMBER ON WAITING LIST FOR LOW-RENT PUBLIC HOUSING IN THE 50 LARGEST CITIES IN THE UNITED STATES AND THE RATIO OF REQUESTS TO VACANCIES—NOVEMBER 1967

City (by population)	Number of requests (Nov. 30, 1967)	Number of vacancies (Sept. 30, 1967)	Ratio of waiting list to vacancies 3=(1)÷(2)	City (by population)	Number of requests (Nov. 30, 1967)	Number of vacancies (Sept. 30, 1967)	Ratio of waiting list to vacancies 3=(1)÷(2)
New York, N.Y.	89,200	117	762	Kansas City, Mo.	56	332	0.16
Chicago, Ill.	21,826	173	126	Columbus, Ohio	1,013	17	56
Los Angeles, Calif.	1,496	334	4.5	Phoenix, Ariz.	229	42	5.4
Philadelphia, Pa.	6,631	218	30	Newark, N.J.	5,195	240	22
Detroit, Mich.	1,641	75	21	Louisville, Ky.	1,366	100	14
Baltimore, Md.	2,616	205	12	Portland, Oreg.	1,049	3	349
Houston, Tex.	1,060	110	9.6	Oakland, Calif.	1,204	10	120
Cleveland, Ohio	2,109	160	13	Fort Worth, Tex.	109	177	0.61
Washington, D.C.	3,148	129	24	Long Beach, Calif. <sup>2</sup>	66	20	3.2
St. Louis, Mo.	946	910	1.04	Birmingham, Ala.	590	39	15
Milwaukee, Wis.	279	140	2.0	Oklahoma City, Okla.	1,029	10	103
San Francisco, Calif.	3,478	65	54	Rochester, N.Y.	1,029	36	29
Boston, Mass.	6,600	571	12	Toledo, Ohio	1,029	6	185
Dallas, Tex.	1,015	763	1.3	St. Paul, Minn.	1,581	17	93
New Orleans, La.	6,569	87	76	Norfolk, Va.	755	10	76
Pittsburgh, Pa.	6,017	531	11	Omaha, Nebr.	937	83	11
San Antonio, Tex.	1,161	175	7	Honolulu, Hawaii	1,042	60	17
San Diego, Calif. <sup>1</sup>				Miami, Fla.	4,386	59	74
Seattle, Wash.	1,634	46	36	Akron, Ohio	498	15	33
Buffalo, N.Y.	640	126	5.0	El Paso, Tex.	89	81	1.1
Cincinnati, Ohio	585	143	4.0	Jersey City, N.J.	875	226	3.8
Memphis, Tenn.	1,021	3	340	Tampa, Fla.	590	71	8
Denver, Colo.	794	32	25	Dayton, Ohio	1,625	1	1,626
Atlanta, Ga.	2,065	79	26	Tulsa, Okla.	222	( <sup>3</sup> )	
Minneapolis, Minn.	2,883	12	240				
Indianapolis, Ind.	1,013			Total	193,072	6,864	28

<sup>1</sup> No program.  
<sup>2</sup> Used reports for North Long Beach.

<sup>3</sup> No units occupied until Oct. 16, 1967.  
Source: Department of Housing and Urban Development, HAA: statistics branch.



TABLE 13.—APPROVED INCOME LIMITS FOR ADMISSION <sup>2</sup> TO LOW-RENT HOUSING IN CITIES WITH POPULATION OF 250,000 OR MORE AND IN SELECTED SMALLER CITIES, BY NUMBER OF PERSONS IN THE FAMILY <sup>3</sup>

City	1960 population	Number of persons in family										
		1	2	3	4	5	6	7	8	9	10	11 or more
New York, N.Y. <sup>4</sup>	7,781,984	\$3,888	\$5,256	\$5,760	\$5,760	\$7,476	\$7,476	\$7,696	\$7,896	\$7,896	\$7,896	\$7,896
Chicago, Ill.	3,550,404	3,000	4,200	4,400	4,600	4,800	5,000	5,200	5,200	5,200	5,200	5,200
Los Angeles, Calif.	2,479,015	3,000	3,900	4,300	4,300	4,600	4,600	4,600	4,600	4,600	4,600	4,600
Philadelphia, Pa.	2,002,512	3,200	3,600	3,800	3,800	4,000	4,000	4,200	4,200	4,400	4,400	4,400
Detroit, Mich.	1,670,144	4,200	4,200	4,300	4,300	4,700	4,700	4,700	4,700	4,700	4,700	4,700
Baltimore, Md.	939,024	3,000	3,400	3,650	3,650	4,000	4,000	4,200	4,200	4,200	4,200	4,200
Houston, Tex.	938,219	2,640	2,640	3,040	3,040	3,780	3,780	3,780	3,780	3,780	3,780	3,780
Cleveland, Ohio	876,050	2,900	4,000	4,200	4,400	4,600	4,800	5,000	5,200	5,400	5,500	5,500
Washington, D.C.	763,956	3,200	3,500	3,700	3,900	4,100	4,300	4,500	4,700	4,900	5,100	5,100
St. Louis, Mo.	750,026	3,700	3,700	4,400	4,400	4,900	4,900	4,900	4,900	4,900	4,900	4,900
Milwaukee, Wis.	741,324	3,500	3,500	3,800	3,800	4,200	4,200	4,200	4,200	4,200	4,200	4,200
San Francisco, Calif.	740,316	2,880	4,000	4,200	4,200	4,500	4,500	4,500	4,500	4,500	4,500	4,500
Boston, Mass.	697,197	3,500	3,600	3,800	3,800	4,100	4,100	4,400	4,400	4,400	4,400	4,400
Dallas, Tex.	679,684	3,000	3,000	3,300	3,300	3,600	3,600	3,600	3,600	3,600	3,600	3,600
New Orleans, La.	627,525	2,700	2,700	3,000	3,000	3,300	3,300	3,300	3,300	3,300	3,300	3,300
Pittsburgh, Pa.	604,332	3,400	4,000	4,400	4,400	4,600	4,600	4,800	4,800	4,800	4,800	4,800
San Antonio, Tex.	587,718	2,700	2,900	3,100	3,100	3,400	3,400	3,400	3,400	3,400	3,400	3,400
San Diego, Calif.	573,224	( <sup>5</sup> )	( <sup>5</sup> )	( <sup>5</sup> )	( <sup>5</sup> )	( <sup>5</sup> )	( <sup>5</sup> )	( <sup>5</sup> )	( <sup>5</sup> )	( <sup>5</sup> )	( <sup>5</sup> )	( <sup>5</sup> )
Seattle, Wash.	557,087	2,800	3,600	4,200	4,200	4,600	4,600	4,600	4,600	4,600	4,600	4,600
Buffalo, N.Y.	532,759	3,600	3,900	4,500	5,000	5,000	5,880	5,880	6,600	6,600	6,600	6,600
Cincinnati, Ohio	502,550	2,700	3,200	3,500	4,000	4,200	4,400	4,600	4,800	5,000	5,200	5,400
Memphis, Tenn.	497,524	2,400	2,880	3,100	3,200	3,700	3,800	4,000	4,200	4,200	4,200	4,200
Denver, Colo.	493,887	3,000	3,000	3,600	3,600	4,000	4,000	4,500	4,500	4,500	4,500	4,500
Atlanta, Ga.	487,455	3,000	3,000	3,200	3,200	3,500	3,500	3,500	3,500	3,500	3,500	3,500
Minneapolis, Minn.	482,872	2,400	3,300	4,300	4,300	4,800	4,800	4,890	4,800	4,800	4,800	4,800
Indianapolis, Ind.	476,258	2,900	3,800	4,300	4,600	4,900	5,200	5,500	5,800	6,100	6,400	6,400
Kansas City, Mo.	475,539	3,000	3,000	3,600	3,600	4,100	4,100	4,100	4,100	4,100	4,100	4,100
Columbus, Ohio	471,316	2,500	3,700	4,100	4,400	4,700	5,000	5,200	5,400	5,600	5,800	6,000
Phoenix, Ariz.	439,170	3,300	3,300	3,500	3,500	3,800	3,800	3,800	3,800	3,800	3,800	3,800
Newark, N.J.	405,220	3,600	4,200	4,380	4,560	4,740	4,920	5,100	5,280	5,280	5,280	5,280
Louisville, Ky.	390,639	2,400	2,950	3,600	3,800	4,000	4,100	4,200	4,300	4,400	4,500	4,500
Portland, Ore.	372,676	3,500	3,500	3,800	3,800	4,100	4,100	4,100	4,100	4,100	4,100	4,100
Oakland, Calif.	367,548	3,300	3,300	3,600	3,600	4,000	4,000	4,000	4,000	4,000	4,000	4,000
Fort Worth, Tex.	356,268	2,400	2,400	2,700	2,700	3,000	3,000	3,000	3,000	3,000	3,000	3,000
Long Beach, Calif.	344,168	( <sup>5</sup> )	( <sup>5</sup> )	( <sup>5</sup> )	( <sup>5</sup> )	( <sup>5</sup> )	( <sup>5</sup> )	( <sup>5</sup> )	( <sup>5</sup> )	( <sup>5</sup> )	( <sup>5</sup> )	( <sup>5</sup> )
Birmingham, Ala.	340,887	3,200	3,200	3,600	3,600	3,800	3,800	3,800	3,800	3,800	3,800	3,800
Oklahoma City, Okla.	324,253	2,800	2,800	3,000	3,000	3,300	3,300	3,300	3,300	3,300	3,300	3,300
Rochester, N.Y.	318,611	( <sup>5</sup> )	( <sup>5</sup> )	( <sup>5</sup> )	( <sup>5</sup> )	( <sup>5</sup> )	( <sup>5</sup> )	( <sup>5</sup> )	( <sup>5</sup> )	( <sup>5</sup> )	( <sup>5</sup> )	( <sup>5</sup> )
Toledo, Ohio	318,003	2,600	4,000	4,200	4,400	4,600	4,800	5,000	5,400	5,400	5,500	5,500
St. Paul, Minn.	313,411	2,800	3,200	3,800	4,200	4,400	4,600	4,700	4,800	4,800	4,800	4,800
Norfolk, Va.	304,869	3,200	3,200	3,400	3,400	3,700	3,700	3,700	3,700	3,700	3,700	3,700
Omaha, Nebr.	301,598	2,400	3,900	4,200	4,200	4,700	4,700	4,700	4,700	4,700	4,700	4,700
Honolulu, Hawaii	294,194	4,200	4,200	4,400	4,400	4,600	4,600	4,800	4,800	4,800	4,800	4,800
Miami, Fla.	291,688	3,000	3,600	3,800	3,900	4,100	4,200	4,300	4,400	4,500	4,600	4,600
Akron, Ohio	290,351	2,800	3,800	4,100	4,400	4,600	4,800	5,000	5,200	5,400	5,400	5,400
El Paso, Tex.	276,687	3,250	3,550	3,750	3,950	4,150	4,250	4,350	4,450	4,550	4,650	4,850
Jersey City, N.J.	276,101	3,600	4,200	4,500	4,700	4,900	5,000	5,100	5,200	5,200	5,200	5,200
Tampa, Fla.	274,970	3,200	3,200	3,400	3,500	3,800	3,900	4,000	4,100	4,200	4,200	4,200
Dayton, Ohio	262,332	2,600	4,000	4,200	4,400	4,600	4,800	5,000	5,200	5,400	5,600	5,600
Tulsa, Okla.	261,685	( <sup>5</sup> )	( <sup>5</sup> )	( <sup>5</sup> )	( <sup>5</sup> )	( <sup>5</sup> )	( <sup>5</sup> )	( <sup>5</sup> )	( <sup>5</sup> )	( <sup>5</sup> )	( <sup>5</sup> )	( <sup>5</sup> )
Wichita, Kans.	254,698	( <sup>5</sup> )	( <sup>5</sup> )	( <sup>5</sup> )	( <sup>5</sup> )	( <sup>5</sup> )	( <sup>5</sup> )	( <sup>5</sup> )	( <sup>5</sup> )	( <sup>5</sup> )	( <sup>5</sup> )	( <sup>5</sup> )
Topeka, Kans.	119,484	2,500	3,100	3,400	3,500	3,600	3,700	3,800	3,900	4,000	4,000	4,000
Saginaw, Mich.	98,265	2,800	3,800	4,300	4,700	5,000	5,200	5,300	5,400	5,400	5,400	5,400
Huntsville, Ala.	72,365	3,000	3,500	3,700	3,900	4,100	4,200	4,300	4,400	4,400	4,400	4,400
Chester, Pa.	63,658	3,200	3,740	4,000	4,200	4,400	4,600	4,800	4,800	4,800	4,800	4,800
Watertown, N.Y.	33,306	3,400	3,400	4,000	4,000	4,600	4,600	4,800	4,800	4,800	4,800	4,800
Pekin, Ill.	28,146	3,000	3,600	3,900	3,900	4,200	4,200	4,200	4,200	4,200	4,200	4,200
Annapolis, Md.	23,385	3,000	3,400	3,600	3,800	4,000	4,200	4,400	4,400	4,400	4,400	4,400
Vincennes, Ind.	18,046	2,700	4,000	4,250	4,500	4,700	4,900	5,100	5,100	5,100	5,100	5,100
Asbury Park, N.J.	17,366	3,600	4,000	4,200	4,400	4,600	4,800	5,000	5,200	5,200	5,200	5,200
Bradford, Pa.	12,337	3,400	3,800	3,900	4,000	4,100	4,200	4,300	4,300	4,300	4,300	4,300
Milwaukee, Ore.	9,099	3,400	3,400	3,800	3,800	4,200	4,200	4,200	4,200	4,200	4,200	4,200
Kelso, Wash.	8,379	3,300	3,300	3,500	3,500	3,800	3,800	3,800	3,800	3,800	3,800	3,800
Dover, Del.	7,250	3,000	3,400	3,600	3,800	4,000	4,200	4,400	4,400	4,400	4,400	4,400
Norton, Va.	5,013	2,600	3,200	3,400	3,600	3,800	4,000	4,200	4,200	4,200	4,200	4,200
Clinton, Tenn.	4,943	2,200	3,000	3,500	3,500	3,700	3,800	3,900	4,000	4,000	4,000	4,000
Belding, Mich.	4,887	3,300	3,300	3,500	3,500	3,700	3,700	3,700	3,700	3,700	3,700	3,700
Bridgeport, Tex.	3,218	2,500	3,100	3,400	3,500	3,600	3,700	3,800	3,900	4,000	4,100	4,100
Vinton, La.	2,987	2,500	3,100	3,400	3,500	3,600	3,700	3,800	3,900	4,000	4,100	4,200
Dublin, Tex.	2,443	2,700	2,700	3,300	3,300	3,500	3,500	3,500	3,500	3,500	3,500	3,500
Hampton, Ga.	1,253	2,600	3,200	3,400	3,500	3,700	3,800	3,900	4,000	4,000	4,000	4,000

<sup>1</sup> Admission and retention standards for public housing are indicated in table 13. <sup>2</sup> gives maximum income limits for admission in 1966 to public housing for each of 48 cities of over 250,000 population, and for 19 selected smaller cities. These limits are graduated in almost every city according to the size of the family. It will be seen that table 14 further examines these statistics.

<sup>3</sup> These income limits do not apply to displaced families where special limits for such families are in effect.

<sup>4</sup> Public housing income limits are stated in terms of family income after certain deductions and exemptions permitted by the local housing authorities. These vary among the local authorities and may include such items as payroll deductions for social security; unusual medical expenses; expenses of a serviceman who is a family head and living away from home; \$100 per minor or dependent adult; part or all of the income of secondary income recipients; income received under anti-poverty programs; and VA service-connected disability and death benefits.

<sup>5</sup> New York City limits are set by apartment size expressed by the number of

rooms per apartment. These have been converted to person limits as follows: 2½ rooms to 1 person; 3½ to 2 persons; 4½ to 3 or 4 persons; 5½ to 5 or 6 persons 6½ to 7 or more persons.

<sup>6</sup> The income limit for a 2-person elderly family is \$3,600.

<sup>7</sup> No program.

<sup>8</sup> The income limit for a 2-person elderly family is \$3,200.

<sup>9</sup> The income limit for a 2-person elderly retired family is \$3,300.

<sup>10</sup> No approved limits—no project under management.

<sup>11</sup> The income limit for a 2-person elderly family is \$3,400.

<sup>12</sup> The income limit for a 2-person elderly retired family is \$3,500.

<sup>13</sup> The income limit for a 2-person elderly retired family is \$3,350.

<sup>14</sup> The income limit is increased by \$100 for each person in the family in excess of 12.

Source: HUD, Public Housing Administration, Statistics Branch.

TABLE 14.—APPROVED INCOME LIMITS FOR A FAMILY OF 4 FOR PUBLIC HOUSING IN AMERICAN CITIES IN 1966 COMPARED WITH "POVERTY" AND "NEAR POVERTY" STANDARDS<sup>1</sup>

City	Approved limit for family of 4	Ratio of limit to poverty level (\$3,365 equals 1)	Ratio of limit to near poverty level (\$4,500 equals 1)	City	Approved limit for family of 4	Ratio of limit to poverty level (\$3,365 equals 1)	Ratio of limit to near poverty level (\$4,500 equals 1)
New York, N.Y.	\$5,760	1.71	1.28	Birmingham, Ala.	\$3,600	1.07	.80
Chicago, Ill.	4,600	1.34	1.02	Oklahoma City, Okla.	3,000	.89	.67
Los Angeles, Calif.	4,300	1.28	.95	Rochester, N.Y.			
Philadelphia, Pa.	3,800	1.13	.84	Toledo, Ohio	4,400	1.31	.98
Detroit, Mich.	4,300	1.28	.95	St. Paul, Minn.	4,200	1.25	.95
Baltimore, Md.	3,650	1.08	.81	Norfolk, Va.	3,400	1.01	.76
Houston, Tex.	3,040	.90	.67	Omaha, Nebr.	4,200	1.25	.95
Cleveland, Ohio	4,400	1.31	.98	Honolulu, Hawaii	4,400	1.31	.98
Washington, D.C.	3,900	1.16	.87	Miami, Fla.	3,900	1.16	.87
St. Louis, Mo.	4,400	1.31	.98	Akron, Ohio	4,400	1.31	.98
Milwaukee, Wis.	3,800	1.13	.84	El Paso, Tex.	3,950	1.17	.83
San Francisco, Calif.	4,200	1.25	.93	Jersey City, N.J.	4,700	1.39	1.04
Boston, Mass.	3,800	1.13	.84	Tampa, Fla.	3,500	1.04	.78
Dallas, Tex.	3,300	.98	.73	Dayton, Ohio	4,400	1.31	.98
New Orleans, La.	3,000	.89	.67	Tulsa, Okla.			
Pittsburgh, Pa.	4,400	1.31	.98	Topeka, Kans.	3,500	1.04	.78
San Antonio, Tex.	3,100	.92	.69	Saginaw, Mich.	4,700	1.39	1.04
San Diego, Calif.				Huntsville, Ala.	3,900	1.16	.87
Seattle, Wash.	4,200	1.25	.93	Chester, Pa.	4,200	1.25	.95
Buffalo, N.Y.	5,000	1.49	1.11	Watertown, N.Y.	4,000	1.19	.89
Cincinnati, Ohio	4,000	1.19	.89	Pekin, Ill.	3,900	1.16	.87
Memphis, Tenn.	3,200	.95	.71	Annapolis, Md.	3,800	1.13	.84
Denver, Colo.	3,600	1.07	.80	Vincennes, Ind.	4,500	1.33	1.00
Atlanta, Ga.	3,200	.95	.71	Asbury Park, N.J.	4,400	1.31	.98
Minneapolis, Minn.	3,800	1.13	.84	Braddock, Pa.	4,000	1.19	.89
Indianapolis, Ind.	4,600	1.34	1.02	Milwaukie, Ore.	3,800	1.13	.84
Kansas City, Mo.	3,600	1.07	.80	Kelso, Wash.	3,500	1.04	.78
Columbus, Ohio	4,400	1.31	.98	Dover, Del.	3,800	1.13	.84
Phoenix, Ariz.	3,500	1.04	.78	Norton, Va.	3,600	1.07	.80
Newark, N.J.	4,560	1.36	1.01	Clinton, Tenn.	3,500	1.04	.78
Louisville, Ky.	3,800	1.13	.84	Belding, Mich.	3,500	1.04	.78
Portland, Oreg.	3,800	1.13	.84	Bridgeport, Tex.	3,500	1.04	.78
Oakland, Calif.	3,600	1.07	.80	Vinton, La.	3,500	1.04	.78
Fort Worth, Tex.	2,700	.80	.60	Dublin, Tex.	3,300	.98	.73
Long Beach, Calif.				Hampton, Ga.	3,500	1.04	.78

<sup>1</sup> In 1966 the level of the poverty line for the "standard" family (2 parents and 2 children) had been set by the Social Security Administration at \$3,365. The upper limit for the next higher class—the near poor—was fixed at a third more or, in round numbers, \$4,500. The upper limits for admission to the housing projects in each of the table 13 cities for 4-member families is compared with the dollar costs of the poverty and near-poor scales. The analysis shows that:

(1) With the exception of 9 southern and southwestern cities, the upper limit on income eligibility was above the poverty level in all of the remaining 57 cities.

(2) On the other hand, in only 7 cities did the upper eligibility limits exceed the near-poor level; and only in 2 of these, New York and Buffalo, was the excess more than 5 points.

Among remaining cities, the income limits for housing in 16 cities were between 90 and 100 percent of the near-poor level; 12 cities were between 80 and 90 percent of this standard; 15 were between 70 and 80 percent, and 5 were in the 60 to 70

percent class. The 10 which were below 75 percent were those which had fixed the maximum below the general poverty level. Possibly lower regional costs made this disparity less in reality than it appears on paper.

New York City alone set a maximum markedly above the near-poverty level—namely, 28 percent. This was 71 percent above the poverty level. New York authorities defend their limits on the ground that living costs there for rent, transportation, food, etc., are much greater than in most cities, and this is probably true.

(3) In virtually all cities the eligibility ceiling fixed for 7-person families remained at the same level for still larger families. Thus very large families might be excluded from public housing on grounds of an alleged excess of income when, in comparison with need, there was no such surplus.

On the whole, cities do not seem to have fixed their income standards at too high a level. Public housing has taken in more than the abject poor and the poor but seldom if ever have the cities gone beyond serving the near poor.



## CHAPTER 4

# Cooperative Housing

A cooperative is a consumer enterprise owned and operated by its members on a nonprofit basis. The general principles that govern the best consumer cooperatives, dating back to approximately a century and a quarter ago when the cooperative movement began in Great Britain, are relatively simple: (1) Membership is open to persons without racial or religious restrictions; (2) members make an initial payment for a share of stock to qualify for membership; (3) voting is on the basis of one member, one vote, regardless of the amount of stock held; (4) net income over costs can be reinvested in the cooperative, distributed among members in proportion to their purchases of goods or services from the cooperative, or a combination of both; (5) the cooperative is run for the benefit of the consumers, with emphasis on quality.

In grocery and other consumer cooperatives, which predominate in Great Britain, members pay a very modest enrollment fee and are then charged the competitive market price for the goods they purchase. This is done to avoid price wars with competitors. Then members receive cash benefits or savings in the form of patronage dividends realized from the economies of operation and the nonprofit principle.

Housing cooperatives, however, generally require a substantially higher initial membership payment, and distribute their monetary advantages in the form of reduced monthly charges. These differences stem from two circumstances—the need of housing cooperatives to assemble sufficient capital to finance construction and such costs as mortgage insurance, and the desire of the cooperatives to provide housing at the lowest possible monthly cost.

Cooperative housing received the Commission's attention and deserves special emphasis in its report on several counts:

Cooperative housing, while primarily serving middle and upper income families today, offers a unique form of ownership that appears well suited for certain lower income families as well.

The best cooperative housing has developed housing at some of the most economi-

cal costs for comparable facilities encountered by the Commission. Any insight into the means of lowering housing costs is of paramount national interest to help overcome the shortage of decent housing. Lower costs will both increase the amount of housing that can be provided without subsidy and stretch the value of subsidy dollars used for housing.

Cooperative housing requires the joint owners to work together and can engender neighborliness, the absence of which is a serious aspect of the social pathology of the American city. Communities also may learn important lessons from the successful interracial developments in cooperative housing.

We do not press the case for cooperatives without reservations. A successful cooperative requires more restraint and volunteer effort than many modern urban Americans exhibit. It cannot be forced upon people unwilling or unfitted for a joint venture in housing. There are shortages of competent management for hire by cooperatives—but without such management, especially in moderate or low-rent projects, they cannot hope to succeed as more than a real estate venture. There have been instances, too, of extremist elements sabotaging the efforts of genuine cooperatives. And we recognize that cooperatives (at least in form, if not in the full sense of the word) are becoming popular in certain luxury-type apartments, simply because of the tax advantages. Yet, on balance, we believe cooperatives have demonstrated much that can be copied by all forms of housing, and much that suggests the Nation would benefit by an acceleration of the cooperative housing movement.

### FEDERAL SUPPORT OF COOPERATIVES

#### *Mortgage insurance*

In 1950 Congress enacted section 213 of the National Housing Act to help foster cooperative housing. Section 213 gives cooperative housing substantially the same program of mortgage insurance under the Federal Housing Admin-

istration that private rental apartment buildings had been given earlier under section 207.

The main features or limitations of section 213 mortgage terms are:

The top limit for an insured property or project of a cooperative is \$20 million. (This limit, originally \$12.5 million, was raised by a 1959 amendment. Other sec. 213 provisions have undergone similar changes over the years.)

The repayment period may extend up to 40 years.

Mortgage interest was not to exceed 5¼ percent (exclusive of insurance premium charges). With sales-type cooperatives, the interest rate on individual mortgages was 5¾ percent. Recent legislation increased both of these rates to 6¾ percent, effective until October 1, 1969, at which time the rates are scheduled to drop to 6 percent.

Mortgages may not exceed 97 percent of replacement value.

To be eligible for section 213 insurance, the replacement value may not exceed—

\$9,000 for efficiency apartments without bedrooms.

\$12,500 for one-bedroom apartments.

\$15,000 for two bedrooms.

\$18,500 for three bedrooms.

\$21,000 for four or more bedrooms.

\* \* \* except that further replacement costs ranging from \$1,500 to \$4,500 per apartment may be allowed in elevator-type buildings.

The incentive provided by these features is indicated by the fact that, as of June 30, 1968, FHA had insured mortgages in 39 States, the District of Columbia, and Puerto Rico for \$1.5 billion of cooperative housing under section 213. These cooperatives had 119,000 dwelling units in more than 2,000 projects.<sup>1</sup> According to testimony before the Commission, "the repayment record on these cooperative mortgages is the best of any market-rate program under FHA."<sup>2</sup>

The chief benefit of section 213 to the housing consumer is the long-term mortgage, with the 40-year term lowering the amount of the required monthly payments. This made cooperative housing more attractive—because it was financially easier—for middle-income families to pay. While section 213 set no upper income limit for families buying and occupying cooperative housing under this program, spokesmen for the cooperatives claim that, by achieving lower costs, the program reached families

that otherwise could not have afforded satisfactory private housing.

Some section 213 investor-sponsored projects were never sold to cooperatives. The reasons for this unsatisfactory development is discussed below in connection with "Uneven Performance Record."

### *Interest subsidy*

In 1961, the enactment of section 221(d)(3) of the National Housing Act created a below-market interest rate program (BMIR) intended for low- and moderate-income families.

Up until 1965, cooperatives were allowed to borrow from the Government at the average market rate of interest on all outstanding Government bonds. Until then, the Government had the burden of selling the bonds as a public charge, amounting at most to a very modest subsidization of the interest rate. When this average Government rate proved too high an interest charge, it was provided in 1965 that the rate on new loans should not exceed 3 percent. The difference between this 3 percent and the rate on Federal bonds is now met by the Government as a subsidy.

Details of the 221(d)(3) program are discussed in the next chapter. Here we only point out the performance record of cooperative housing under it.

As of June 30, 1968, FHA had insured mortgages of \$250 million on cooperatives under the BMIR program. This covered 197 projects serving 17,621 families. Commitments and applications were outstanding for \$111 million of additional cooperatives for 7,000 additional families. The program thus totals about \$361 million, which will provide housing for about 25,000 families of moderate incomes. Many more projects are in the initial stage.<sup>3</sup>

It is noteworthy that about one-third of all projects under the BMIR program are cooperatives.

The cooperative program under 221(d)(3) has achieved a remarkable record. There has not been a single default in any cooperative mortgage although the default rate on BMIR rental projects is over 3 percent. This suggests that moderate-income families will assume responsibilities when they are afforded the opportunity to own their homes through a cooperative.

The chairman of the House Banking and Currency Committee, Representative Wright Patman, gave his appraisal of this program:

Here is a program that really works for people that would otherwise be in that "forgotten family" gap—too well off or too independent for public housing; too poor to buy a decent home in the normal market. The initials BMIR in FHA lingo mean "below market interest rate."

<sup>1</sup> FHA Statistical Report RR 301, July 1968.

<sup>2</sup> *Hearings Before the National Commission on Urban Problems*, Vol. 5, p. 59.

<sup>3</sup> FHA Report RR 301.



This rate saves the average BMIR family about \$23 per month for his home. If you are making \$100 a week and feeding a family of four, a \$23-a-month difference on your housing charges makes a decent home possible.<sup>4</sup>

#### NON-FEDERAL SUPPORT FOR COOPERATIVES

In addition to the mortgage insurance and long-term, low-interest loans made available to cooperative housing ventures by the Federal Government, additional assistance or encouragement to cooperatives has been provided.

A number of labor unions have taken a special interest in cooperatives and have made low-interest loans available through union-held banks and employee pension funds.

The Mitchell-Lama Act in New York State provides another avenue of low-interest loans to cooperatives, and other nonprofit housing. The same law—and similar legislation in about half a dozen other States—provides generous property tax abatement for nonprofit housing, including cooperatives. Under the typical formula, cooperatives pay about 15 percent of monthly carrying charges to the local government, in lieu of property taxes, for approximately 30 years. Depending on the local tax rate, this may amount to a 50-percent or more reduction in local taxes.

#### BEGINNINGS AND GROWTH OF COOPERATIVE HOUSING

##### *New York City*

The cooperative housing movement in the United States began more than 40 years ago, when the Amalgamated Clothing Workers took advantage of a 1926 New York law which offered partial tax abatement to housing companies which limited the returns on such investments. An initial Bronx project of 2,600 units under the direction of Sidney Hillman and A. E. Kazan proved a great success, encouraged other cooperative efforts, and trained personnel who became available to manage later projects. In 1930, the same union built Amalgamated Dwellings with 236 units in New York's lower East Side.

From these efforts grew the United Housing Federation (UHF), a nonprofit organization providing experience and expertise in the organization, development and management of cooperative housing efforts. A second such organization, the Foundation for Cooperative Housing (FCH) was established about 15 years ago. FCH and its subsidiary, FCH Services, Inc., have spearheaded many of the lower income cooperatives throughout the country and assisted in bringing cooperatives to 100,000 people in 25,400 dwelling units in projects valued

at \$350 million. These FCH cooperatives, located in 24 States, account for about one-third of all federally assisted cooperatives. (This figure does not, of course, include the nonsubsidized coops, or the State-subsidized coops in New York.)

The Cooperative housing movement gained momentum in the 1950's. State aid under New York's Mitchell-Lama Act entitled cooperatives to lower property taxes over a 30-year period and to lower interest rates on mortgages. Federal benefits also spurred housing cooperatives. As a result, by 1968 New York City had 57,000 units of cooperative housing in operation. These, plus another 18,000 units under construction in mid-1968, will house somewhat over a quarter of a million people.

As would be expected, New York City's cooperatives are predominantly high-rise apartments. Typically, those developed by UHF are 12 stories or more, but with at least 70 percent of the land used for parks, playgrounds, and open space. In addition, land has been given to the city for schools, and further buildings have been provided for social purposes of the cooperatives. The buildings are well built, although some architects have criticized their height and style.

##### *Growth of cooperative housing nationwide*

Cooperative housing, after a very slow start, has been spreading throughout the country. In the Detroit area, with labor union backing as in New York, this form of housing has enjoyed considerable acceptance. There are 39 States which now have cooperatives taking advantage of Federal subsidies. But during the part of the Commission's Detroit hearings devoted to cooperatives, testimony revealed that the Nation has vast deserts in which the volume of cooperative housing remains very low.

Some cooperatives have developed without subsidy, and these often have reached families in higher income levels. A number of commercial firms have specialized in developing these cooperatives.

During the 1950's, many cooperatives were generated by the acquisition of Government housing projects—including war housing—and their transfer to the residents as cooperative owners. In the 1960's, the emphasis changed from acquisition to new construction, taking advantage of the favorable Federal financing discussed above.

Members do not buy a specific apartment but, instead, sign a general contract with the cooperative under which they buy a share of stock at a nominal price of \$25, which gives them voting rights. They also make an initial deposit of from \$400 to \$500 per room for the apartment

<sup>4</sup> *Hearings, op. cit.*

which they will receive. Upon death or withdrawal from the cooperative, the unit is given up, and the member or his heirs will then receive what was originally invested—no more and no less.

A study of the financial records of a dozen of the UHF affiliated cooperatives reveals an initial total cost in the 1950's of \$2,000 per room for land, buildings, and development. The comparable cost now has risen to about \$2,500. The initial deposit per room (the equity investment by the members), which comes to about 20 percent of the total cost, has therefore increased from \$400 to \$500 a room. Since living and dining rooms are each counted as a room and the bathroom is treated as a half room, this means that a 3½-room, one-bedroom apartment now requires an initial downpayment of approximately \$1,750. A two-bedroom unit requires at least \$2,250 and a three-bedroom unit around \$2,750 to \$3,000. This obviously limits the income group which can take part.

Generally, a guarantee is given the members that the total monthly cost, excluding utilities, will not initially exceed a given amount per month. In the fifties and early sixties, this initial maximum was about \$21 per room in the new cooperatives. It was much less in the early cooperatives built at much lower costs. With the increase in land and construction costs, the required monthly payment has risen today to about \$25 per room. A one-bedroom (3½-room) apartment will therefore tend to cost about \$87.50 a month; a two-bedroom, at least \$112.50; and a three-bedroom, \$127.50 and up. For New York City these are relatively low costs.

Outside of New York, cooperatives include townhouses, apartments, and freestanding houses. Cooperatives also have become involved in rehabilitation, often stressing methods that do not price existing occupants out of their remodeled dwellings nor displace them while work is in progress.

It has been estimated that less than 3 percent of new housing projects in 1968 would be cooperatives.<sup>5</sup> The supply of cooperative housing only meets a small amount of America's massive housing needs, but the recent growth of this supply is a hopeful sign.

#### HOW COOPERATIVES SHARE GROWING VALUE OF PROPERTY ASSETS

Real estate owned cooperatively, like property in other forms of ownership, typically experiences an increase in value over the years. Cooperatives distribute this increase in one of three major ways:

(1) Some cooperatives permit a member who moves to receive only the downpayment he made initially, and no more. These cooperatives then offer the unit to the new occupant at the original price. In other words, the value is distributed in terms of low initial payments and monthly carrying charges for future members as well as current members. (New York's United Housing Federation cooperatives follow this system.)

(2) At the other extreme, some cooperatives permit a departing member to seek the highest amount he can obtain for his unit on the open market. Original members capture the full increase of value from the new member. These cooperative dwellings, even if initially offered at prices attractive to low- or moderate-income families, become priced so that few except high-income families can afford them. (The commercial, nonsubsidized cooperatives use this system.)

(3) The middle path, used by virtually all cooperatives under the Federal 213 or 221(d) (3) programs, gives the departing member his downpayment, his share of equity in the project, and a cost-of-living payment. Thus an original owner who leaves receives some of the added value to use in acquiring his next housing, while much of the value is retained to lower a new member's cost of ownership.

#### UNEVEN PERFORMANCE RECORD

Not all cooperatives have met with equal success. One of the crucial factors appears to be the type of sponsor-developers. The main types recognized under the Federal insurance programs for cooperatives are:

(1) *The private investor-sponsor*.—The private investor becomes eligible for an FHA-insured mortgage before the existence of a cooperative. The sponsor must agree to sell the completed project to a cooperative within 2 years after its completion if the cooperative subscribes to 97 percent of the dwelling units.

(2) *The management-sponsor*.—The management type first organizes a cooperative, and then provides a housing project for it. But management cooperatives have been characterized by two main subtypes:

(a) *The builder-sponsor*, who actually constructs the project, and

(b) *The consumer-oriented sponsor*, who contracts for a builder in behalf of the cooperative.

Failures and difficulties with cooperatives most frequently have been associated with investor-sponsors and with builder-sponsors of the management type. The consumer-oriented sponsors of the management type have achieved an outstanding record: there have been no de-

<sup>5</sup> *Ibid.*, p. 88.



faults at all under the 221(d)(3) below-market interest rate program, and they have the lowest default rate under section 213 of any of the FHA's market interest rate programs.

These dissimilar experiences suggest that the cooperative form alone is not a guarantee of success.

Some experienced cooperators, while dubious about the investor-sponsored method of encouraging cooperative housing, did not openly oppose it. They recalled that many dairy cooperatives in Wisconsin and Minnesota had been organized by manufacturers of dairy machinery, and yet had worked out well. It was hoped that a similar plan might work in housing, permitting the attractive profits and low-equity investment of real estate development to encourage mutually beneficial practices of cooperative effort. One cooperator remarked that it might be a means to weld God and mammon.

In practice, however, these investor-sponsored ventures have been financially disappointing. The General Accounting Office reported that by 1967, out of 134 such investor-sponsored projects which had been completed, no less than 76, or 57 percent, were either in grave financial difficulty or were not run as cooperatives.<sup>6</sup>

The projects experienced financial difficulties for many reasons. The sponsors and FHA overestimated the market for some projects, and construction costs were high. There was inadequate incentive to achieve lower construction costs: since the builders' profits are a given percentage of total cost, the higher the costs, the greater the paper profits. Similarly, there was a profit from a writeup in the land if an investor had been able to purchase it at a price lower than FHA's appraisal. The high rental required of the initial tenants often priced potential customers out of the market.

High vacancy rates caused a number of investor-sponsors to fail. Many projects were never sold to cooperatives because the sponsors were unable to make sufficient sales within 2 years after completion. Consequently, these projects continued to be owned and operated as rental projects by investor-sponsors. Some sponsors lost their properties when they defaulted on mortgages. The FHA insurance fund (and possibly ultimately the public) will have to make good the losses.

After the foregoing experience with the investor-sponsor program, FHA procedures were revised and strengthened several years ago, taking into account the marketability problems affecting such projects. As a result, the number of projects finally insured on investor-sponsored

projects dropped from 31 in 1961 to two in 1966. The FHA Commissioner pointed out that during the time these earlier investor-sponsored projects were planned and committed, there were rising construction costs and a weakening of housing markets which it was not possible to forecast.

A good case can be made that the section 213 investor-sponsor program is still appropriate in order to meet needs in inner-city areas, particularly during early states of urban renewal when cooperative presales of units are not practical. The new, tighter standards should protect the public and the consumer.

Investor-sponsor cooperatives under 221(d)(3), it should be emphasized, have not experienced the problems or difficulties encountered some years ago in the 213 program. This is due in part to the lower income group that must be served under the BMIR program. It also is due to the fact that independent consumer cooperatives were generally involved in these BMIR projects. This is a good argument for requiring investor-sponsors to sell to consumer cooperatives that are independent of the sponsors. In order that such a requirement does not leave the new cooperatives adrift in technical matters through which they cannot navigate, there should be assurances that the cooperatives can avail themselves of technically qualified service organizations to help them deal with their sponsors. The 1968 Housing Act authorizes seed money to meet some of these problems, but only a nominal sum has been appropriated.

In some cases, builders organized the cooperative and put their friends or associates on the board of directors so they could control it. Then the builder worked out a contract and other arrangements with the cooperative which would produce the maximum profit for himself. In certain instances, it was later found that the projects had not been built according to specifications. Lawsuits and other difficulties developed. The courts decided in favor of a number of the cooperatives on the grounds that the builders had assumed a role that involved a conflict of interest and that the cooperative's rights had been impaired.

This unsatisfactory experience with builder-sponsored cooperatives explains why there are few current projects which involve such sponsorship.

The management type of sponsor-developers who are independent of the builder have done a most impressive job.

Typically, the nonprofit, consumer-oriented management group forms the cooperative at an early stage in a new project. The sponsor retains its role as director of the new cooperative until 60 days after completion of a devel-

<sup>6</sup> Report to the Congress by the Comptroller-General of the United States, "Limited Success of Investor Sponsored Cooperative Housing Programs," April 11, 1968, p. 1.

opment. At that time, the cooperative members meet and elect their own board, which then assumes control. The democratically organized cooperative runs its own affairs, generally with a professional management organization.

Most such cooperatives today are being organized on a presale basis, assuring the existence of a market for the housing before it is built.

There is an arm's-length relationship between the cooperative and the builder. Working to protect the interest of the cooperative home buyers is an independent, technically qualified servicing organization. The cooperative pays a fixed downpayment and a monthly carrying charge.

Accordingly, some of these cooperatives adopted the practice of a fixed price for a turnkey job long before this idea was introduced into public housing.

In return for accepting these obligations which protect the consumer, the contractors obtain a lump-sum construction contract which gives them an opportunity to recover or avoid additional costs through efficient performance. In other words, lump-sum contracts encourage builders to improve their construction techniques and achieve greater efficiency. The fixed price never exceeds the FHA estimate of replacement cost, even though the contractor may assume obligations that are not reflected in FHA's cost estimates.

In the FHA program involving consumer cooperatives, many local private builders have been utilized to construct these projects under turnkey contracts. The consumer-oriented sponsors have apparently selected responsible builders; no builder has failed to complete a presold cooperative project.

#### *Conclusions about types of sponsorship*

One lesson emerged clearly from experience in New York and around the country: housing cooperatives do not organize themselves. They are not created by spontaneous generation. The tasks of enlisting members, arranging for financing, dealing with the Government, letting contracts, and supervising construction are altogether too complex for individual members. The fact that people want and need a home does not give them the knowledge and experience to design, finance, and produce housing at a price they can afford.

This is a complicated job which cannot be done by amateurs, no matter how well motivated. Their efforts may flicker for a time but will lead to discouragement and failure unless there is an efficient, reliable organization which can perform the functions mentioned. Even for experts it is not easy to knit individuals and

families of varied backgrounds and interests into a cohesive mutual organization.

Community Services, Inc., the service arm of the United Housing Foundation in New York, and FCH Services, Inc., the service arm of the Foundation for Cooperative Housing, are examples of technically qualified and consumer-oriented organizations. These service arms manage the cooperative during the organization period, and are often hired to continue in that function after the cooperative members elect their own board of directors and assume control.

#### ECONOMIC ADVANTAGES OF COOPERATIVE HOUSING

The quantitative growth of cooperative housing, as noted earlier, leaves much to be desired. It appears that lack of interest by some FHA regional offices is among the reasons that cooperative activity is absent or minute in some areas. But two major and impressive accomplishments should be underscored: in reducing housing costs and in improving the quality of urban living, cooperatives have scored an enviable record. Those trying to devise housing strategies would be unwise to ignore this record. The record suggests, first, that the number of cooperatives could be expanded—especially in those HUD regions where none now exist. Secondly, since many of the economic and social benefits provided by the best cooperatives involve practices and principles that are not necessarily unique to cooperatives, developers of all types of housing should study the cooperative housing record so they may extend applicable benefits to a wider public.

Before listing some highlights of the economic record of cooperative housing, it should be stressed that not all cooperatives apply these practices with the same effectiveness, and that many other builders—nonprofit and for-profit builders as well—also may duplicate one or more of these practices.

The discussion of housing costs in part V of the report documents the Commission's finding that extraordinarily low construction costs were achieved by the cooperative studied. The \$9.84 per-square-foot cost was extremely low for high-rise elevator apartments. Savings realized and passed on to members of some cooperatives have resulted from the following economies not necessarily unique to cooperatives:

*Large-scale purchasing* is an important factor where the cooperative manager acts as general contractor and obtains reduced prices through discounts for large quantities and through prompt payments. This had brought savings in raw materials such as cement, ready-mix concrete, lumber, bricks and stone, in electrical and plumbing fixtures, and in appliances



such as stoves and refrigerators. Any big builder may use this technique.

*Low contracting and service fees* often represent a considerable savings to cooperative members, as illustrated by the recently constructed Rochdale Village. The sponsors of this \$100 million project, although legally entitled to a 7.5-percent builder's fee of \$7.5 million, charged only \$750,000 or one-tenth the possible fee. Other fees are often far less than those conventionally charged.

Especially large apartment complexes built by cooperatives have maximized economies through *repetitive design*, of floor plans within buildings, and of apartment units. The savings stem from design work itself, from bulk purchases, and from ease and speed of workmanship (with time translating into dollar savings). There has been less than unanimous approval of the architectural results, however. A writer said that Co-op City (which, with 60,000 or more eventual tenants, will be the nation's largest apartment development) was described by some critics as an "esthetic disaster."<sup>7</sup>

*Low administrative and sales costs*, while not strictly construction items, are reflected in lower selling prices or square-foot costs and are typically benefits in consumer-oriented cooperatives.

Economic benefits brought together in the best cooperatives do not stop with construction-related costs. Other factors can be seen most easily by comparing cooperative housing with rental housing, individual ownership, and condominiums.

### 1. Comparison with rental housing

The prime benefit to cooperative members is that they *avoid payments for profits* because they are in fact owners. Even in rental projects for limited-dividend investors who receive Federal assistance, the investor is permitted a 6-percent return on equity above the mortgage; cooperators avoid this payment.

Unlike renters, cooperative members are entitled to *Federal income tax deductions* for their share of local taxes and interest on mortgage, as are other homeowners.

Because monthly carrying charges paid by cooperative members are paying off the mortgage, the members are *building up equity*. Most cooperative members also build up equity by being credited for their share of the value of certain property improvements.

Rental projects often run up high costs due to vacancies and losses from collections, whereas cooperatives generally benefit from *little or no losses from vacancies and collection difficulties*. The Federal regulations reflect this experience, allowing 7 percent for vacancy-collection losses

in rental housing, but only 3 percent for cooperatives under section 213 and 5 percent for cooperatives under the BMIR program. Even this 3 percent often is not needed and becomes a forced saving. This differential has been illustrated dramatically in rental projects acquired by residents through cooperatives: formerly high vacancy losses were substantially reduced as the cooperative brought stability.

Cooperative members experience *cheaper maintenance costs* when members provide interior decorating, minor interior repairs, and other self-help work. Some claim that the members merely save a cash outlay for housing, with self-help equated dollar for dollar for upkeep that the renter buys through his monthly rent. But, in practice, because self-help can generate pride and a sense of caretakership, cooperatives point to better maintenance for less expense than experienced in rental units.

### 2. Comparison with individual ownership

The cooperative member on initial purchase can enjoy lower *closing costs*. The project has one mortgage which consolidates survey or title search, title insurance, hazard insurance, and various administrative and legal matters. An added benefit is a simplified procedure without the vexations that confront many home buyers at closing time.

The *consolidated mortgage* brings ongoing advantages because single collection saves time and money in amortization, passed on to the cooperative member in lower monthly carrying charges.

Not only the purchase, but also the sale involves *easier, cheaper transfer* for the cooperative members. Instead of broker fees, financing fees, title costs, and so forth, the member pays the cooperative a small handling charge (which is typically not more than \$25 in low- or moderate-income projects).

*Lower utility and maintenance costs* are often achieved by cooperatives through master meters and volume purchases of supplies used for repairs or renovation.

*Lower costs for parking, recreation, and community facilities* can be realized in cooperatives when these facilities are pooled.

*More favorable terms* on mortgages, in recognition of the more permanent character of cooperatives, reduce monthly carrying charges for members. Instead of a 15- to 30-year amortization period, cooperatives have obtained 40-year mortgages.

*Money set aside for upkeep* is required in cooperatives (another reason for the favorable terms mentioned above). When private owners fail to do this they face possible financial setback when repairs or replacements become imperative, or they let the work slide, jeopardizing

<sup>7</sup> *New York Times*, Monday, Sept. 16, 1968.

the quality both of their home and their neighborhood.

On purchasing new construction (as against used housing), the cooperative has *protection against added costs* that typically face the private owner having a home built for him. Cooperatives of the consumer-oriented management type obtain fixed-price contracts from the builders.

In older housing in public-assisted cooperatives, *inflated real estate values are not added to the price*, keeping the downpayments and monthly carrying charges lower. (Of course many homeowners are willing to pay higher prices in the hope that the market will keep rising and that they, too, will reap an inflated price when they sell.)

### 3. Comparison with condominiums

Many of the points cited earlier in connection with rental and individual ownership apply to condominiums: *lower closing costs, consolidated mortgage, easier, cheaper transfer, lower utility and upkeep costs.*

A further advantage of cooperatives over condominiums is their greater control over maintaining *minimum standards of upkeep*. The cooperative retains far more sanctions and remedies than do condominiums against individual owners who fail to maintain their dwelling units.

These various economic advantages combined in many cooperatives have put decent housing in reach of families who otherwise could not afford it in the normal housing-for-profit market. Further, these economic benefits have made available a type of home ownership for families who otherwise could not be owners, particularly in urban areas where multifamily housing predominates. Senator John J. Sparkman, Chairman of the Senate Banking and Currency Committee, who initially sponsored section 213, recently stated that the cooperative program has done " \* \* \* a splendid job in providing excellent housing at moderate cost."<sup>8</sup>

It should be stressed again that not all the advantages listed are necessarily unique to cooperatives. Some come from mass purchase or construction or from the nonprofit aspects. But it is also true that many of these advantages are possible to the particular individuals involved only through their banding together in a cooperative.

#### SOCIAL ADVANTAGES OF COOPERATIVE HOUSING

The advantages of cooperation are not, however, entirely economic. Cooperatives can serve to develop a greater sense of community and of belonging. Modern city life is too often imper-

sonal. The sense of isolation and spiritual loneliness can sweep over many men and women. The individual feels lost in a great aggregation of people among whom he establishes few close relationships. He frequently feels antagonistic toward his landlord and local merchants. All too often the city dweller views his fellow men either with complete indifference or with a cold sense of rivalry; neither view is wholesome.

Joining in a cooperative housing project gives common interests to different families and at once broadens their interests. They have something which they own together. If their venture succeeds, they will be better off; if it fails, they fail also. This necessity to promote its success produces a greater degree of fellow feeling. Except among the most selfish, working together produces a feeling of identification and a desire to help, which is desperately needed in city life. It can help turn antisocial individuals into self-respecting, cooperating members of society.

The social benefits of cooperatives include the following:

The cooperatives elect their own boards and run their own affairs with democratic control.

The development of a cooperative spirit in housing carries over to other aspects of life. Thus, cooperative members often attract or manage cooperative groceries, cooperative nurseries, cooperative day care centers, cooperative summer camps, cooperative utilities, and cooperative recreation centers.

The cooperatives develop pride of ownership, leading to stable, attractive communities.

Vandalism, crime, and delinquency have been nonexistent or very low. A 40-year-old cooperative in the Bronx<sup>9</sup> proudly points to a record of no arrests for crime or juvenile delinquency. Managers of New York cooperatives assert there is no breaking of windows or other vandalism in the thousands of units they supervise. To those who argue that cooperatives accomplish this record by attracting "a superior type of family" in the first place, the experience of Armistead Gardens in Baltimore is instructive. In this war-housing project, vandalism was rife during the period of public ownership. After the project was converted into a cooperative, these destructive acts ceased. Cooperative ownership generates a greater degree of responsibility. Despite the doubts expressed by some when cooperatives moved into housing for lower income

<sup>8</sup> *Hearings*, op. cit.

<sup>9</sup> *Ibid.*, Vol. 4, pp. 172, 313.



families, they have met their mortgage bills, and have not only maintained their properties but have improved them as well.

Cooperatives pioneered in residential integration and point to success in bringing members of all races and religions together as neighbors. The record of racial integration in cooperatives won praise from the White House Conference "To Fulfill These Rights," and from HUD Secretary Robert C. Weaver. The Commission heard stirring testimony about the way Negroes in an interracial cooperative in the Detroit riot area protected the project from harm.<sup>10</sup>

Establishing a housing cooperative is no guarantee of social utopia. Typical human problems arise. The advantage of the cooperative is that it provides a mechanism for dealing with these problems in a constructive way. As a last resort, when the cooperative fails to control behavior which disrupts or disturbs a community, the cooperative has democratic methods for applying sanctions, including eviction.

A final word about these social benefits. Many of them also bring economic benefits. The absence of vandalism, for instance, may be viewed as a cost factor, or equally properly, as a condition representing a higher quality of urban life.

#### ON THE OTHER HAND

None of the discussion of cooperatives is meant to imply that all housing should be cooperative. There are wide differences in both economic and social benefits of the investor-sponsored and builder-sponsored cooperatives, on the one hand, and the consumer-oriented

sponsor, on the other. Even in comparison with the latter, a great many people for good reasons prefer individual ownership, rental, or condominiums. And it goes without saying that where people do not want cooperatives, the private profit involved in providing other types of housing is not only legitimate but is a socially useful means of responding to consumer demands.

Perhaps the biggest disappointment with cooperatives to date, among those concerned about social problems, is that they have not reached very far down the economic scale. Leaders in the cooperative movement itself are taking the view that cooperatives should pioneer with economic integration, as they have been doing with racial integration. The experience to date on the ability of low-income residents to fit into cooperative patterns is cause for optimism. In July 1968 the city of New York took a forward step by providing that city aid would not be given to cooperatives in the future unless they used at least 20 percent of their facilities for the poor. There has not yet been enough emphasis in this direction. But it cannot be objected that cooperatives which receive public subsidies should assume an obligation to help meet the housing demands of the neediest Americans.

#### CONCLUSION

Recognizing that cooperatives have no monopoly on benefits—that many of the advantages they provide may be duplicated or equalled in other ways by different forms of housing—the overwhelming conclusion from the experience with cooperative housing is that it has displayed a tremendous potential. Expanding cooperative housing in some of the directions indicated can serve the Nation well.

<sup>10</sup> *Ibid.*, Vol. 5, p. 66.

## CHAPTER 5

# Publicly Assisted and Subsidized Housing

Opposition to public housing led many of its advocates to seek alternatives. Public assistance remained necessary to bring decent housing within reach of large numbers of Americans. But the attempt to provide this assistance while avoiding the stigma sometimes associated with public housing led to new paths.

The major new concept was to shift ownership and operation of assisted housing to private individuals and groups. Private interests then would be praised for doing that for which the Government had been condemned. Uncle Sam still would be expected to pick up the check, but his presence around the house was not welcome. His relationship was to be muted. Those through whom the public moneys passed were to be the visible benefactors.

It was felt that this approach would be more acceptable if housing subsidies, instead of aiding chiefly those at the bottom of the economic scale, also benefited those who were not classified as poor but whose incomes in general were still too low to qualify for conventional FHA loan programs. Helping the lower middle-income class to obtain better housing would be regarded as commendable by many who would strongly disapprove of similar aid to the poor.

Attempts to bring a new look to assisted housing for both low- and moderate-income groups included the following:

- Measures to house the elderly.

- Housing for low- and moderate-income groups through interest-rate subsidies and long-term mortgages.

- Rent supplements.

- Rent certificates, or leased housing.

- Subsidies for homeownership.

There are some ironic twists in this new effort. In the earlier days, rent certificates were opposed on the grounds that such an outward manifestation of poverty was demeaning and that indirect means of paying subsidies was more self-respecting.

### MEASURES TO HOUSE THE ELDERLY

Two early measures, outside of public housing, to encourage the construction of dwelling units for the elderly (age 62 and older) were

started in 1959 and greatly expanded in 1961. One, a mortgage insurance program under FHA, provides liberal terms. The other, administered by the Secretary of HUD, provides direct loans.

### *Section 231: FHA-insured loans*

The purpose of this program is to enable special projects to get favorable mortgage and interest terms if 50 percent or more of the units are to serve the elderly. Eligible applicants for 231 loans may be public bodies, nonprofit organizations, or limited-dividend housing corporations. Projects must include eight or more units. The law provides a limit of 10 percent as an allowance for builder's and sponsor's profit and risk.

FHA is authorized to insure up to 90 percent of the value of these projects for the elderly, but the mortgages may not exceed specified amounts. The mortgage ceiling for walkup apartments ranges from \$8,000 for efficiency or no-bedroom units to \$19,250 for four-bedroom units. The mortgage ceilings are higher for elevator apartments, ranging from \$9,500 for efficiencies to \$22,750 for units with four or more bedrooms.

Typical loans under the 231 program have been for 40 years at 5½-percent interest (plus another one-half percent for insurance). The number of units constructed under this program are shown in table 1. The program hit its peak in 1962 and has been declining ever since, largely because more attractive terms became available under 221(d)(3) programs which are discussed later.

TABLE 1.—PROVISION OF HOUSING UNITS UNDER THE 231 LOAN PROGRAM FOR THE ELDERLY

Year:	New units
1960	2,967
1961	5,177
1962	8,261
1963	7,459
1964	4,912
1965	4,405
1966	1,724
1967	850
Total	35,755



### Section 202: HUD direct loans

The purpose of the direct loans also is to help nonprofit organizations and public bodies provide housing for the elderly. There is additional provision for housing the permanently handicapped. Cooperatives were added as possible sponsors in 1961.

No dollar ceiling is placed on dwelling unit costs or mortgages by the legislation, which calls construction in an economical manner without use of elaborate or extravagant design or materials.

The loans are made from a revolving fund, originally set up with \$50 million but subsequently increased to \$500 million by 1965.

The 202 loans may amount to 100 percent of the development cost and run for a period of up to 50 years.

The interest rate originally was to be either (a) 2¾ percent or (b) the average rate on all government obligations plus one-eighth of 1 percent, whichever was *higher*. This was modified in 1965 to provide that it was to be the *lower* of these two criteria, with 3 percent substituted for 2¾ percent. A clause that these loans may be made only if comparable terms cannot be obtained from private lending institutions is more or less a face-saving device, since the private market has been unable to match such terms.

The performance record, indicated by table 2, shows that, as with many other Federal housing programs, the number of units actually produced is somewhat disappointing.

TABLE 2.—PROVISION OF HOUSING UNITS UNDER THE 202 LOAN PROGRAM FOR THE ELDERLY

Fiscal year:	Units completed
1960	-----
1961	-----
1962	----- 168
1963	----- 623
1964	----- 2,291
1965	----- 2,737
1966	----- 3,471
1967	----- 4,647
1968 (estimate)	----- 7,200
Total	----- 21,137

### Public housing for the elderly

The units built for the elderly under the 231 and 202 loan programs do *not*, it should be emphasized, include the units built especially for the elderly in public housing projects. Despite the attention focused on the new program, public housing from 1960 through 1967 built approximately twice as many housing units for the elderly as were constructed under the 231 loan program and almost five times as many as under the 202 program. Since 1964, the starts

for public housing for the elderly have been half the total number of starts.

The record of public housing in providing completed dwelling units for the elderly is shown in table 3.

TABLE 3.—PROVISION OF UNITS FOR THE ELDERLY UNDER PUBLIC HOUSING

Year:	Units completed (thousands)
1960	----- 0.5
1961	----- 2.3
1962	----- 4.5
1963	----- 7.2
1964	----- 7.9
1965	----- 13.2
1966	----- 16.1
1967	----- 16.1
Total	----- 67.8

### Some conclusions

A comparison of the 202 direct loan program with public housing, insofar as they both aim to serve the elderly leads to several conclusions.

The public housing effort is proceeding much faster because—

It is a better deal financially. Construction costs are absorbed by the Government under public housing; such costs must be repaid, plus 3 percent interest, under the direct loan program.

A public housing administration can make a good showing in the "units completed game" by providing housing for the elderly. It generally costs less to construct and maintain housing for the elderly than family housing, and the administrative and social welfare problems are less complex when accommodating the elderly rather than poor families.

Still another incentive for public housing administrations to build projects for the elderly is that such projects typically meet less community resistance than do new projects for families.

For these reasons, units built especially for the elderly account for about half of all the public housing built in recent years and totaled 69,700 units at the end of 1967. Preliminary figures for fiscal year 1968 indicate that about 57 percent of the units started were for the elderly.

But this does not explain why the 202 program, instead of fading away, has moved along at a slow but steady place. The reasons for this appear to be:

A number of the elderly do not wish to live in a project designated as public housing. (We have attempted to make clear, of course, that the direct loan projects amount to much the same thing under different guise.)

Nonprofit groups who wish to offer a useful service have awakened to the special needs of the elderly, and this program has provided one channel for their interest.

#### HOUSING FOR MODERATE-INCOME GROUPS

##### *Section 221(d)(3)*

Adequate rehousing of persons displaced by slum clearance had become a serious problem. In 1959, FHA was authorized to guarantee mortgages on housing for families "displaced from urban renewal areas or as a result of Government action." This program was broadened in 1961 to include "low- and moderate-income families" generally. This pioneering step was intended to produce housing for those who are literally caught in the middle: The people who are too poor to rent or buy standard private housing but not poor enough to be admitted to public housing.

The approach of the 221(d)(3) program—widely known as d(3)—instead of opening public housing to higher income groups was to bring rental housing within reach of lower income groups by means of a packet of subsidies to the housing developer.

##### *Sponsors or developers*

The developers who obtain these subsidies as mortgagors may be nonprofit associations, limited-dividend corporations, cooperatives, or certain public bodies. The sponsors agree to pass on the benefits of these subsidies to future renters, and in other ways to carry out the purposes of the program. Limited-dividend sponsors are allowed a 6-percent return on investment, while nonprofit sponsors, mainly religious and philanthropic bodies, are allowed none.

##### *Extended mortgage terms*

Permanent mortgage financing is offered for 40 years as contrasted with the typical 15- or 20-year mortgages applicable to builders of rental housing.

##### *Below-market interest rates*

Initially the interest rate, pegged to the average cost of money to the Federal Government, ranged from  $3\frac{1}{8}$  to 4 percent. This was almost 2 percent under the going private rate.

The interest formula was changed in 1965 to a maximum 3-percent rate. With an additional waiver of the FHA mortgage insurance premium which, on other programs is one-half of 1 percent, and with the accompanying rise in market interest rates, this interest subsidy cuts the cost of mortgage debt service by approximately 40 percent, as compared with conventional FHA financing terms, and permits rent reductions of about 25 percent.

The FHA insures both the construction advance and the permanent loan. The advance is insured at 100 percent of value for nonprofit sponsors and at 90 percent for limited-dividend sponsors (the profit they are allowed accounts for the different treatment). The permanent FHA-insured mortgage is purchased from the financial institution by the Federal National Mortgage Association (FNMA, or Fannie Mae) under its special assistance program. This so-called Fannie Mae takeout explains how the mortgages with below-market interest rates, which would not be attractive to private lenders, are carried by the Government.

##### *Occupants: How high is "moderate"?*

The 221(d)(3) program, as noted, soon changed emphasis from displacees to families whose incomes were too high for admission to public housing but not high enough to obtain decent private housing. The FHA Commissioner of HUD, who since 1954 has had full authority to fix the occupancy qualifications, interpreted this new intent faithfully. Inevitably, 221(d)(3) began where public housing left off. The locally-determined maximum income limits for public housing became the minimum incomes for entry into 221(d)(3) housing. That substantially eliminated this program as a means for helping to house the really poor.

This left the question: What upper income limits should be set for the beneficiaries of this generously subsidized program? The principle finally adopted was that the ceiling would be fixed at the median or midpoint of family incomes in each city. Following local studies, upper limits were established in this way. Table 4 shows these limits for 50 large cities. (These figures apply only to families with three or four members; different ceilings apply to families in other size categories.)

Provision of decent housing for the lower half of the population (by income) was thus taken on as a public responsibility. Public housing was to assist the poorest quarter of urban families while 221(d)(3) would assist the next quarter. But limited funds meant that the supply of subsidized housing could not stretch nearly far enough to help this half of the population. Who were to be left out in the rationing process which was accomplished by the sifting of applicants for housing on the part of public and private authorities?

Discrimination on the grounds of race or color is not allowed under Federal law. In all sections of the country, encouragingly, housing programs are found which follow this law to the letter. Yet housing programs in some cities still suffer from the residue of racial segregation policies and attitudes that for years were condoned and even encouraged.



Some sifting in 221(d)(3) follows the practice of many public housing authorities, the imposition of requirements with respect to character. This is a delicate matter. To fill a project overwhelmingly with broken families, alcoholics, criminals, delinquents, and other problem tenants would hardly make it a wholesome environment. Yet the total exclusion of such families is hardly an acceptable alternative. To the extent this exclusion is practiced, the very people whose lives are described to persuade lawmakers and the public to instigate new programs find the door shut in their faces when such programs come into being. The proper balance is difficult to achieve, but society's neediest families surely should not be totally denied the opportunities for rejuvenation in subsidized housing.

Congress itself also laid down certain priorities. The first priority went to the displaced (original law). Then the elderly and handicapped were included (1964). Other "low- and moderate-income persons" were not to occupy more than 10 percent of the units (1966). In short, except for displaced families, there was a built-in bias against the families in the active years of life with growing children who were in the lower income band of the moderate-income group. Administrators and legislators appeared to be hesitant to take on much responsibility for children of even the lower middle class. The elderly and the handicapped were preferred occupants.

Which income groups should occupy publicly assisted housing is too important an issue to sweep under the rug. Congress in 1968 began to raise the question in earnest. Should the thrust of these housing programs be directed toward the second income quarter of the population; that is, the lower economic middle class and those slightly above? Or should the poor and the near-poor who form approximately the lowest quarter of the population be helped most? To the extent the families in the second income quarter are included, should the emphasis be on helping the upper or lower ranges of that group?

The weight of reason is that housing subsidies, at most, should not serve those above the median income. Yet among 50 large cities, 22 place the eligibility ceiling for 221(d)(3) housing for three- and four-member families above the national median for all families of \$8,017. In 12 of these 22 cities, the national median is surpassed by more than 5 percent (see table 4).

Twelve other cities, however, set upper income limits (for this same family size category) that are more than 10 percent below the national median.

The FHA practice of permitting help for

families above the median, according to those who defend it, recognizes that big-city income levels tend to be above those for the country as a whole. They point out that the cities with the very low 221(d)(3) ceilings, with the exception of Philadelphia, are all in or bordering the South, where income levels are lower.

The various income ceilings for eligibility in 221(d)(3) for families of three or four in size, compiled from table 4 data for 50 cities, are grouped as follows:

Upper 221(d)(3) eligibility limits:	Number of cities
\$6,000 and under-----	0
\$6,000 to \$7,000-----	10
\$7,000 to \$8,000-----	16
\$8,000 to \$9,000-----	22
\$9,000 and over-----	2

The two cities with the highest eligibility limits are New York City and Honolulu.

Income ceilings mentioned so far apply to average-size families, those with three or four members. Ceilings for single persons in the same cities range from \$4,000 to \$7,000, except for Honolulu, where the ceiling exceeds that figure. The limit for families with two members generally is \$1,000 to \$1,300 higher than for single persons. The next categories have limits that apply to pairs of family sizes, families of three and four members, of five and six members, and of seven and eight members.

Another way of examining the income levels set for 221(d)(3) occupancy, besides the relationship to median family income, is to note how far these limits exceed the incomes of the urban poor and near-poor. In her classic studies of poverty, Mollie Orshansky in 1966 fixed \$1,685 as the upper limit of urban poverty for single members with male head under 65, and \$2,185 for families with two members. She then estimated that the near-poor, those on the fringes of poverty, received up to one-third more income than the poverty level. This was \$2,045 for single persons and \$4,232 for four-member families in 1966. Adjusted for the 6-percent cost-of-living rise, the 1968 income figures, below which city persons are counted in the near-poor category, are \$2,168 for one person, \$3,182 for two-member families, and \$4,606 for four-member families.

As noted, the lowest 221(d)(3) eligibility limits for single persons are \$4,000 or more. Occupants therefore may have twice as much income as persons on the threshold of the near-poor in those cities. In 32 cities, where eligibility limits for single persons are between \$5,000 and \$6,000, occupants may have three times the income of the near-poor. Table 4, column 2, shows the relationship of the eligibility figure and the near-poverty level for three- and four-member families. (The figures admittedly are imperfect approximations, and comparative living costs

account for many of the variations.) The median of the 50 cities is 169 percent, or approximately 70 percent above the national near-poverty threshold.

That FHA tried to do a creditable job under the conditions it has laid down for itself is not questioned. The elderly and small families are generally receiving a greater degree of assistance. This seems to be true through a whole range of public programs from welfare to social security, as well as housing. The Commission does not object to the help provided to these groups, but does not condone the disproportionately large share they have received in admittedly insufficient programs.

Advocates of high eligibility ceilings justify their position on three grounds: (1) Because building costs are so high, those persons who, regardless of income level, cannot afford to buy or rent decent housing should be in line for subsidies in order to be properly housed. (2) It is highly desirable to have a mixture of middle-income families in projects, as opposed to having them exclusively occupied by the poor. (3) Middle-income families should not only be present but should predominate so they can set the tone for the project.

The following questions may be raised about these points: (1) Since there are not enough funds to help all the needy at once, should we help the most needy last, so that the least needy who get help are, in effect, subsidized by the taxes of persons poorer than themselves? (2) Is it not possible to make available funds stretch further and thus achieve a greater degree of economic integration by using subsidies primarily for the poorer occupants while the higher income families pay their own way? (3) Is there not a tendency to exaggerate the correlation between poor families and "problem" families, and thus to rule out almost all of the poor, even though some of them may be fully acceptable on the basis of their citizenship potential in a project?

Among the advocates of lower eligibility ceilings are both fiscal conservatives and humanitarian liberals. The former call for reduced Government spending and are appalled at the idea of subsidizing middle-class housing in this direct form. The latter, seeing that the amount of public money finally appropriated will be limited and insufficient to meet the needs of all, assume that some rationing system, conscious or unconscious, is inevitable; and they fear that the tendency will be to fill the available 221(d) (3) housing with middle-income families and the elderly to the detriment of the near-poor and families whose needs are either more severe or less proportionately met.

The fiscal conservatives and humanitarian

liberals do not dismiss the housing needs of the middle class, but join hands in the belief that the primary effort on their behalf should be in the direction of reducing the various costs that now make housing too expensive. But policymakers at HUD and among the housing officialdom have been more than skeptical that genuine cost reductions can be effected, and are thereby deeply committed to the subsidy method of reducing the rental or purchase price.

### *Performance record*

These occupancy issues have deep significance for the Nation's housing programs and urban characteristics in the long run. But the most immediate problem is that the 221(d) (3) program has produced a relatively small volume of housing. The following statistics show the units started since 1961:

Year:	Number of units started
1961	2,320
1962	3,182
1963	6,884
1964	13,906
1965	11,098
1966	12,766
1967	23,660

Total ----- 73,816

Preliminary figures for fiscal 1968 indicate 43,000 new starts.

The record indicates some progress over time. This is especially true in fiscal years 1967 and 1968. But the total is not great in comparison with the need, or with the total volume of private construction. Up to 1967, these units did not represent more than 1 percent of the total volume of private construction and amounted to few more total number of units than had been planned as a yearly total when the program was started. With the increase to over 23,000 units in 1967 and 43,000 in 1968, the 221(d) (3) program still furnished less than 2 and 3 percent, respectively, of the volume of private construction in those years. Nevertheless, by 1968, the program had achieved the annual total originally planned when it was passed. This was due to special efforts at the White House and the top housing officials to speed up the program.

By July 1967 FHA had given commitments to proceed with a total of 73,000 units in 569 projects. The sponsors of these units were as follows:

Sponsors	Units with FHA commitments	Percent of total
Limited-dividend corporations.....	33,300	46
Nonprofit organizations.....	23,600	32
Cooperatives:		
Management or membership types.....	10,800	15
Investor types.....	3,100	4
Miscellaneous.....	2,100	3
Total.....	72,900	100



Here was a program with little risk to the investors, with insured construction loans, with 3-percent below-market interest rates, with long-term guaranteed mortgages, with a Fanny Mae "take out," with a great deal of public support and publicity, and with little if any public opposition or resistance. Why did it move so slowly and produce so little for so long?

The reasons for the sluggishness of the 221(d) (3) program include the following:

Nonprofit sponsors lacked the experience, the building and financing know-how, and often the seed money, necessary to initiate and successfully carry out a housing project.

The amount of profits that the limited dividend corporations could distribute was restricted to a rate of 6 percent, which discouraged (or at least did not encourage) private enterprisers who are accustomed to 12-percent profits or more. (This is not to suggest the program was unattractive to those who participated; builder profits of 7 percent, architect fees of 4 percent, and other charges or fees were allowable costs.)

Complexities and bottlenecks in processing applications by FHA often frustrated the program. The manual of successive steps which must be taken under 221(d) (3) comes, with the illustrative forms, to 283 pages. This discouraged all but the most persistent sponsors. Under pressure from the President and his task force, FHA appeared to be making important strides to overcome these hurdles and delays by late 1968.

Processing time from original applications with FHA approval to the start of construction was estimated by HUD at 376 working days.

Some of the advocates of higher income ceilings claim that many of the top limits in certain cities prevent middle-class families from applying and from assuring the success of planned projects. However, FHA surpassed the stated income limits by deducting certain expenses from gross income.

It took the 221(d)(3) program 6 years to bring into being the number of housing units that were set as the initial *annual* goal.

Many of the projects that have been built under the program are excellent. Much of the nonprofit work involved individuals and organizations in a meaningful way in their communities. Many families and individuals who needed help obtained a real housing bargain. The program has picked up steam in the past 2 years. As a major housing program to produce an abundance of housing, it fell far short of its original goals.

Just as the program finally gained momentum, new law provided that it be phased out as the new 1-percent interest rate subsidy program begins. Because of this, Congress gave generous additional authority to FNMA to assist the program in the interim. Subsequent action by the Appropriations Committees shows how wise this was. They reduced the initial amounts for both the 1-percent sales and rental programs from \$75 to \$25 million.

The momentum finally achieved under 221(d) (3) can still continue if the program is nurtured by HUD and, especially, if the Budget Bureau does not cut back on the funds FNMA may use for it.

#### *Rent supplements*

In 1965, after a long internal struggle, HUD came to Congress with a program to subsidize the rents of moderate- and middle-income families. These were to be in new or rehabilitated structures privately owned and managed by nonprofit organizations. This program was apparently intended in part as a substitute for public housing, which was then under heavy criticism.

Instead of being aimed at helping the poor, however, as was public housing, the rent supplement program was designed primarily to help the middle- and moderate-income groups with incomes ranging from \$4,000 to \$8,000 a year, and possibly even up to \$10,000. The general intent was to follow the income patterns of those eligible for 221(d) (3) housing, which has already been discussed.

When this was discovered by the Senate Banking Committee, the members objected strenuously. The majority maintained that the primary aim should be to help the income group which most needed to be helped—the poor. These Senators insisted, therefore, that the income standards of admission prevailing under rent supplements should be the same as under public housing, not as under 221(d) (3). HUD vigorously opposed this change. The Secretary, for example, declared in a public speech that while those who wanted to use rent supplements for the poor "might have hearts of gold, they had heads of lead."

The National Association of Housing & Redevelopment officials was opposed to the entire idea of rent supplements, even for the poor. It favored, instead, continuing the orthodox method of public housing.

The Senate committee, on the other hand, supported rent supplements as a supplement to the orthodox public housing system, and this standard finally was adopted. Private and supposedly nonprofit groups were to be encouraged to erect new housing or satisfactorily rehabilitate old housing.

### *Subsidy formula*

Those who were eligible for public housing could have their rents subsidized by the difference between (a) the market rent and (b) 25 percent of the family income. The costs allowed in computing market rent were to include up to 6 percent interest plus the half-of-1-percent FHA fee.

For example, if the fair market rent for an apartment were to be \$1,320 a year (\$110 a month), but the family had an income of only \$3,000 a year (\$250 a month), it would only be expected to pay 25 percent of this income, or \$750 a year (\$62.50 a month) toward rent. The monthly subsidy would then amount to the difference between \$110 and \$62.50, or \$47.50.

Subsidized housing was to be privately, not publicly, owned by the same institutions relied upon in 221(d) (3)—nonprofit sponsors, limited-dividend corporations, and cooperatives.

The rent supplement could not exceed 70 percent of the market rent nor be less than 10 percent. As the income of a family changed, the supplement would vary inversely. To illustrate, if the family income in the previous example were to rise to \$3,600, the amount which the family could pay would increase to \$900 a year (\$75 a month), reducing the supplement to \$35 a month. But if the family's income fell to \$2,400, it would only be expected to pay annual rent of \$600 (\$50 a month), requiring the subsidy to rise to \$60 a month.

The change in the actual rent payment by a family in this program would only be one-quarter of any rise in income, leaving a strong financial incentive for the family to try to increase its income.

Other programs, in order to encourage low-rent housing, subsidized one or more of the following elements of costs: construction, site, operation and maintenance, tax burden, interest, and so forth. Rent supplements, however, were intended to help tenants directly. One advantage was flexibility, because the supplements could be varied from person to person according to income and available housing.

The supplements also permitted the use of private rather than public financing. This made the program more acceptable to the main body of congressional and public opinion, although, because of the higher interest rates involved, it created large added costs over the long run. It was a price which the program paid for greater private participation. An added inducement to localities lay in the fact that, since the properties were to be privately owned, they would pay full local property taxes. Here, as under 221(d) (3), there was some opportunity to attract as promoters, organizers, and managers the private

profit seekers as well as philanthropists. This could not be done very effectively in the case of nonprofit groups or management and membership cooperatives. But there were possible loopholes under the limited-dividend corporations and investor-sponsored cooperatives. In attempting to check this, the FHA was forced to adopt procedural safeguards. These, together with the natural tendency of bureaucracy toward overelaboration, caused forms and procedures to be multiplied until the sponsors seemed at times to be completely smothered in red tape. Urban America's description of the successive steps which sponsors of rent-supplemented units had to take, and the forms they had to fill out, came to 323 pages.

### *Racial and economic integration*

One of the basic, though unavowed, purposes of the rent-supplement program was to promote in a constructive fashion a greater degree of economic and racial integration. It was not intended that a building or project would house only rent-supplement families. On the contrary, it was hoped that a large percentage of the tenants in a building would pay the full economic rent. Those receiving the supplements were to be mixed in among them without being publicly distinguished from them. In this way, it was hoped that the occupants would avoid the stigma sometimes associated with public housing.

It was also hoped that these buildings, with their mixed occupancy, could be diffused through a city and not confined to the slums or gray areas.

These latter purposes were not explicitly avowed but were soon detected. Those who were generally hostile to racial integration were therefore successful in persuading the House to require that the consent of a locality was necessary before rent supplements could be put into effect there. Unfortunately, this virtually barred the program from the suburbs.

### *Performance record*

Since there was a close connection between rent supplements and the 221(d) (3) provisions, the administration of the supplement program also was entrusted to FHA. The clients to be served by the supplements were, however, to be virtually identical with the lower income group eligible for public housing.

Congress permitted 5 percent of the rent supplement money (not units) to be used for projects which would share in the below-market interest program of 221(d) (3) where the annual rate was to be only 3 percent. Another 5 percent of the 3-percent money was also allowed for the elderly. This was to provide an alternative to



the provisions for the elderly already made by sections 202 and 231.

Congress authorized \$150 million for the years from 1965 to 1968, but the actual sum appropriated for this purpose was later reduced to \$42 million. HUD states that by the end of March, 1968, a total of 59.9 thousand units were in the pipeline, and that of these 43.2 thousand, or 72 percent, were definitely destined for rent supplements. Of this latter number, 4.3 thousand were classified as being in the formal stage, 31.5 thousand as preliminary and contracts had been let on 7.4 thousand. This did not specify the precise numbers which were actually under management or in operation.

In the spring of 1968, when this Commission sought information from official sources on the total number of units which had actually been constructed under rent supplements, we were informed that as of the end of 1967, only 921 units had been completed in 12 rent supplement projects. But of these, only 365 units were actually earmarked for rent supplements. Some progress has undoubtedly been made since then. But it is also probably true that a considerable number of the units which are currently claimed as being under management are in reality transfers from previous programs for the elderly such as those under section 202 and 231. When HUD was asked by Congressional committees in 1968 how many units could be produced under rent supplements in the first year after the new law went into effect, the department withdrew its earlier estimate and refrained from providing any final figure. It is obvious, therefore, that grave difficulties have arisen in carrying out the program.

Part of the trouble has undoubtedly been caused by the fact that many of the sponsors had not understood the duration and complexity of the process. Many became exhausted and quit. Others were frightened by the prospect that they could not find a sufficient number of tenants to make their project pay and that they would become responsible for the organizing costs.

As the general level of interest rates rose, the gap widened between the cost of housing and the 25 percent of their income that low-income families were allowed to pay under the program. Since the amount of the subsidy is limited, higher interest rates progressively diminished the number of low-income families who could qualify.

Some sponsors found it difficult to build within the physical limits allowed for rent supplement units and yet make them attractive to the remaining tenants. Some were repelled by what they regarded as cold, bureaucratic, and

at times actually hostile treatment at the hands of FHA.

We are confident that this was not the intention of top FHA officials. They seem to have tried to be helpful. But as testimony before our Commission revealed, the rank and file officials in district and local offices were, in many cases, highly unsympathetic. They were accustomed to dealing with the conservative real estate and financial community. They did not feel at home in having business dealings with churches and philanthropists whom they tended to regard as soft and impractical. Nor did they welcome having the poor as their constituents. This was a social class whom they had never served and who seemed alien to their interests and associations. After these attitudes were in-

TABLE 4

City	1968 maximum income limit in dollars of 221(d)(3) program for family of 3 or 4 <sup>1</sup>	1968 relation to amounts needed for upper threshold of fringes of poverty; \$4,718 equals 100 percent <sup>2</sup> (percent)	Relation to median family income in United States, 1967; \$8,017 equals 100 percent (percent)
Atlanta.....	\$6,500	137.8	81.1
Baltimore.....	7,000	148.4	87.3
Birmingham.....	6,200	131.4	77.3
Boston.....	8,200	173.8	102.3
Buffalo.....	7,700	163.2	96.0
Charleston, W. Va.....	7,550	160.0	94.2
Chicago.....	8,800	186.5	109.8
Cincinnati.....	7,850	166.4	97.7
Cleveland.....	8,600	182.3	107.3
Dallas.....	7,550	160.0	94.2
Denver.....	7,500	159.0	93.6
Des Moines.....	8,300	175.9	103.5
Detroit.....	8,450	179.1	105.4
Gary.....	8,000	169.6	99.8
Hartford.....	7,800	165.3	97.3
Honolulu.....	10,250	217.3	127.9
Houston.....	6,950	147.3	86.7
Indianapolis.....	7,650	162.1	95.4
Jersey City.....	8,200	173.8	102.3
Little Rock.....	6,300	133.5	78.6
Los Angeles.....	8,750	185.5	109.1
Louisville.....	6,950	147.3	86.7
Memphis.....	6,450	136.7	80.5
Miami.....	7,150	151.5	89.2
Milwaukee.....	8,200	173.8	102.3
Minneapolis-St. Paul.....	8,050	170.6	100.4
Newark.....	8,500	180.2	106.0
New Haven.....	8,100	171.7	101.0
New Orleans.....	7,950	168.5	99.2
New York.....	9,050	191.8	112.9
Omaha.....	8,400	178.0	104.8
Peoria.....	7,650	162.1	95.4
Philadelphia.....	7,200	152.6	89.8
Phoenix.....	7,250	153.7	90.4
Pittsburgh.....	8,050	170.6	100.4
Providence.....	8,100	171.7	101.0
Richmond.....	6,550	138.8	81.7
Rockford.....	8,000	169.6	99.8
St. Louis.....	8,500	180.2	106.1
San Antonio.....	6,650	140.9	82.9
San Diego.....	8,650	183.3	107.9
San Francisco.....	8,650	183.3	107.9
Seattle.....	8,500	180.2	106.0
Spokane.....	8,100	171.7	101.0
Takoma.....	7,800	165.3	97.3
Toledo.....	7,850	166.4	97.9
Topeka.....	7,700	161.2	96.0
Tulsa.....	6,650	140.9	82.9
Waco.....	6,400	135.7	79.8
Washington.....	8,850	187.6	110.4

<sup>1</sup> "Maximum Income Limits for Admission to Section 221(d)(3) Housing," (April 1968), HUD.

<sup>2</sup> Mollie Orshansky, "The Shape of Poverty in 1966," Social Security Bulletin, (March 1968), pp. 3-32.

creasingly revealed by our hearings, the head of FHA reacted vigorously. He called his field representatives together and instructed them to pay special attention to such applications. He warned the field officials that if they persisted in their past course, Congress would undoubtedly transfer the program and reduce the number of FHA employees. This produced a decided change of attitude in many offices, although the old indifference and antagonism linger among many of the personnel.

HUD officials still believe that the rent supplement program will catch on. They point to the 7.4 thousand units of rent supplements for

which contracts have actually been let, and insist that the vast majority of the 31.5 thousand in the preliminary stage will ultimately result in actual units. It remains to be seen whether these hopes will materialize. New and favorable factors are, of course, the increased authority provided for the program by the 1968 Act, together with the greater subsidization of interest also contained in that measure.

Of the total number of units which were in the rent supplement pipeline, 27.4 thousand, or 63.5 percent, were sponsored by nonprofit organizations, 15.1 thousand by limited-dividend corporations, and only 640 by cooperatives.

TABLE 5.—PROCESSING TIME FOR APPLICATION UNDER SEC. 221 (d)(3)—MORTGAGE INSURANCE FOR MULTIFAMILY RENTAL OR COOPERATIVE HOUSING FOR LOW- AND MODERATE-INCOME AND DISPLACED FAMILIES

Step	Agency or office	Action taken.	Days
<b>PREAPPLICATION STAGE</b>			
1	Local: Local public agencies, nonprofit or limited dividend corporation, or cooperatives.	Preapplication analysis request (form 2012) received by FHA local insuring office from nonprofit sponsor.	-----
	Local/Federal:		
2a	FHA local insuring office	Site feasibility study	14
2b	do	Land use intensity analysis	10
2c	Regional: Assistant regional administrator, FHA	Zone site engineering report	9
2d	National: Office of Assistant Commissioner for Multifamily Housing.	Headquarters nonprofit sponsor approval	22
<b>INITIAL APPLICATION STAGE</b>			
3	Local (same as 1 above)	Sponsor response to invitation to submit preliminary application	70
4a	Local/Federal (same as 2a above)	Site plans examined	12
4b	do	Preliminary architectural analysis	14
4c	do	Prevaluation analysis	15
4d	do	Mortgage corporation analysis	8
4e	do	Chief underwriter review	5
4f	Regional: Assistant regional administrator, FHA	Zone multifamily review	15
<b>FINAL APPLICATION STAGE</b>			
5	Local (same as 1 above)	Sponsor submits final application package of detailed specifications, drawings, cost, and financing data.	77
6a	Local/Federal (same as 2a above)	Final architectural analysis	37
6b	do	Final cost estimate review	20
6c	do	Final valuation analysis	8
6d	do	Final financial and credit analysis	8
6e	National (same as 2d above)	Allocation/reservation of funds	33
7	Local/Federal (same as 2a above)	Commitment issued to mortgagee	-----

Note: Preapplication stage, lapsed time: 45 days. Initial application stage, lapsed time: 110 days. Final application stage, lapsed time: 404 days.

Source: Study by Model Cities Systems Improvement Team, HUD, June 23, 1967.



## CHAPTER 6

# From Slum Clearance to Urban Renewal

What is now termed *urban renewal* was earlier called *slum clearance* and then urban redevelopment. When Federal aid was first provided by title I of the Housing Act of 1949, that title was labeled "Slum Clearance and Community Development and Redevelopment." Following the report in December 1953 of the President's Advisory Committee on Government Housing Policies and Programs, the Housing Act of 1954 changed the name to "Slum Clearance and Urban Renewal." It is still so named.

From about 1943, when Senator Wagner of New York and Senator Thomas of Utah introduced bills for Federal aid (which, with the more thorough title VI of S. 1592 introduced in 1945 by Senators Wagner, Ellender of Louisiana, and Taft of Ohio, were forerunners of title I of the act of 1949) until 1954, officials and others most directly concerned with shaping this new program commonly referred to it as *urban redevelopment*. Nearly all of them strongly supported the clearance of slums and badly blighted areas as an objective of housing policy, but thought it was clearly implied in the first syllable of *redevelopment*.

In those earlier days, however, *urban redevelopment* as the name for the proposed Federal aid program had one drawback. It was sometimes taken to mean that Federal and local governments were going to undertake the rebuilding. Because public housing was an established program (although then coming under heavy fire), the man who read as he ran often drew the conclusion that this new program must be intended to extend direct Government building beyond low-rent housing and the traditional local government facilities such as schools, parks, and playgrounds. Naturally this produced much confusion and opposition. To be more explicit and to offset this misinterpretation of the intent of the proposed program, in congressional bills and other formal documents the term *slum clearance* was usually added to redevelopment. Although, as just pointed out, the present title includes the term *slum clearance*, after the program caught on in the middle 1950's and the earlier misconceptions had been stilled, *slum clearance* was usually dropped and the term abbreviated to *urban renewal*.

These shifts in terminology and usage are much more than incidents in the evolution of the program. They both mask and contribute to another common misunderstanding of its purpose and particularly of its relation to low-income housing, which is what brings renewal within this Commission's purview. That misunderstanding is that urban renewal is not essentially a housing-oriented or a housing-related program. Put another way, it is said that in title III (low-rent housing) of the Housing Act of 1949, Congress improved and strengthened the public housing program set up by the act of 1937. In title I it then undertook, as a separate and only indirectly and distantly related program, to encourage rebuilding of slums and blighted areas in non-housing and upper income housing uses.

Many persons who have come upon urban renewal in recent years and who judge it primarily by what they see going on under this name, hold this opinion. Even some who have taken part in renewal as actual or prospective investors or builders take this view. Often, of course, the error is simply the result of not knowing the facts. In some instances, however, it seems quite clear that this misunderstanding of the program has been deliberately fostered by those interested in redevelopment for other uses than low-income housing. They may not want any of the Federal funds to go to help housing in which they are not interested. They may fear that public housing on renewal land might come uncomfortably close to the commercial development, college buildings, or luxury housing they have in mind.

The Commission believes that the record clearly and unmistakably supports the view that the three primary purposes of the urban renewal title of the act of 1949 were: (a) to speed up the clearance of slums and badly blighted residential areas; (b) to facilitate the provision of decent, low-income housing by helping to finance the acquisition and preparation of appropriate sites, including insite preparation of public facilities that would contribute to "a suitable living environment," and (c) to give private enterprise "maximum opportunity" to take part in redeveloping these areas. This was to be done by

clearing the principal obstacles (notably the difficulties of site assembly and the high asking prices for land in many slum and blighted areas) out of the way of private developers. Sites would be made available to them, as to public agencies, at "use value," which was referred to in title I as "\* \* \* fair value for uses in accordance with the redevelopment plan" (sec. 110(c)). This would enable the private builders to reach as far down the income scale as possible with new housing in slum and blighted areas.

A few of the more reckless spokesmen for private builders even asserted that if these obstacles were removed, private builders "could do the whole job"—that is, provide good housing for all income groups and thus make the public housing program unnecessary. More responsible representatives of the builders, however, knew that this claim was false. At best, the Federal and local government aids on land assembly, clearance, site preparation and land prices could only put private building in the older parts of cities on a more or less equal footing with building then going on in the outer fringes of urban and metropolitan areas, where at that time land assembly was not difficult and land was inexpensive. If private builders could not reach lower-income groups with housing in these locations, they would not be able to do so on slum clearance sites.

Nevertheless, almost everyone concerned with the new program wanted private builders to extend their market down the income scale. Although the term was not much used in those days, they were to be encouraged to build much more moderate-income housing. This is clearly reflected in the "Declaration of National Housing Policy," section 2 of the act of 1949. The statement of the national goal is followed by this language: "\* \* \* The policy to be followed in attaining the national housing objective hereby established shall be: (1) private enterprise shall be encouraged to serve as large a part of the total need as it can; (2) governmental assistance shall be utilized where possible to enable private enterprise to serve more of the total need; \* \* \* ." (Clauses (3) and (4) go on to deal with the role and activities of local public bodies.)

It was sometimes pointed out by the proponents of the program (but probably more often assumed to be self-evident) that an overwhelming proportion of the land in slums and badly blighted areas was in low and moderate-income housing. Admitting that some land in these areas would properly be redeveloped for other uses, it was obvious that most of it should be redeveloped for these kinds of housing—at densities and with the supporting public facil-

ities—schools, playgrounds, neighborhood centers, etc.—that would make "a suitable living environment." Luxury housing, centers for the performing arts, convention halls, retail stores, industrial uses, even parking lots could absorb only a small fraction of the vast areas of slums and blight in most sizable cities. Therefore, if the local officials and the leading and influential citizens who supported redevelopment really intended to do away with the slums, very large amounts of low and moderate-income housing would be absolutely essential. To keep this fact in the forefront of the program while allowing flexibility in local planning and action, Congress wrote two safeguards into title I: (a) the requirement that a project area must be "predominantly residential in character" either when it was acquired *or* after it was redeveloped (sec. 110(c)), and (b) the requirement that "\* \* \* there are or are being provided, in the project area or in other areas not less desirable \* \* \* decent, safe, and sanitary dwellings equal in number to the number of such displaced families \* \* \*" (sec. 105(c)).

It is hard to see how Congress could have done more at that time to protect the basic purposes of the program without clamping down conditions and requirements that would have amounted to a strait jacket on local action or would have killed the program. In the late 1950's and particularly since then, HHFA and HUD have pushed the Federal-aid programs for local planning, particularly the community renewal programs (CRP), which should have enabled responsible local officials to see clearance and renewal in their proper proportions and perspective.

Nevertheless, we must conclude that the principal reason for the failure of this program, over its first 18 years, to fulfill the clear intentions of the Housing Act of 1949 is that too many local and Federal officials in it and too many of their allies and supporters either did not understand its major purposes or did not take them seriously. Instead of a grand assault on slums and blight as an integral part of a campaign for "a decent home and a suitable living environment for every American family," renewal was and is too often looked upon as a federally financed gimmick to provide relatively cheap land for a miscellany of profitable or prestigious enterprises.

To be sure, other objectives of particular interest to some supporters of the program were implied in such phrases in title I as "\* \* \* housing production and related community development \* \* \*" (sec. 2) and "\* \* \* to facilitate community development and redevelopment \* \* \*" (sec. 2), but these were clearly secondary. These objectives included strength-



ening the property tax base of local governments, helping local communities to utilize more economically the large capital investments, public and private, in centrally located districts; improving the effectiveness of local land use planning; providing sites for uses other than low and moderate income housing—e.g., for public, civic, and educational purposes as well as commercial, industrial, and higher income housing where the official local plans indicate these were appropriate uses of a site and if the relocation requirements of the act were met; obtaining Federal aid in providing certain public facilities; and dealing with areas that were then called “dead subdivisions” and were referred to in the act as “\* \* \* land which is predominantly open and which because of obsolete platting, diversity of ownership, deterioration of structures or of site improvements, or otherwise substantially impairs or arrests the sound growth of the community \* \* \*” (sec. 110(c)).

These were significant objectives for nearly all urban localities. We would not belittle them in any way. Some of them could be largely realized as byproducts of slum clearance and redevelopment. But they were not the main objectives of title I. To remove all doubt on this point we now review rapidly the record of congressional action just before and on the act of 1949, and then trace the principal changes in the program since that date. We then will give our estimate of the strengths and weaknesses of urban renewal as it has evolved in practice.

#### A REVIEW OF THE BASIC PROGRAM

Congress, both in 1945 and 1948, had decisively rejected proposals similar to those in the act of 1949 for Federal involvement in both slum clearance and public housing. Indeed, in the former year the Senate Subcommittee on Housing had declared: “The subcommittee is not convinced that the Federal Government should embark on a general program of aid to cities looking to their rebuilding in more attractive and economical patterns.” Following the election of 1948, title I of the act of 1949 directly reversed that position.

#### *Passage of the 1949 act—Public support*

What had attracted and temporarily won public support for the measure was the deterioration of neighborhoods of the central cities. These were the oldest, the most crowded and most run-down sections. Successive waves of immigrants into the country and the poorer migrants to the cities from rural areas had moved into these slums and then largely moved on, frequently leaving their poorest members behind. Crime rates were the highest there, the

poor abounded, the schools were old, parks and playgrounds were few. These slums were unhealthy and overcrowded, and served as breeding centers for vice and crime. When groups moved out of the slums, their crime and delinquency problems decreased. As new groups moved in, their crime and mortality rates were at least as high as those of their predecessors.

Many had urged that a surgical operation be performed that would cut out these decaying and overcrowded structures and permit them to be replaced by better ones. Title I was designed to meet these problems. But there was from the very beginning some dualism of purpose: Most of the legislators who led the fight for title I firmly believed that slum clearance was an initial step to help pave the way for better housing for low-income families.

The act combined the two in its title, that is, a bill \* \* \* to provide Federal aid to assist slum clearance and low-rent public housing projects \* \* \*. [Emphasis added.]

Both the House and the Senate reports emphasized the provision for the needs of low-income families. In the House report, where the definition of national policy is given, the following explicit language is used (p. 12) :

The definition of national policy also includes the extension of Federal assistance for slum clearance and for the provision of decent housing for low-income families in cities and rural areas, to the extent that those needs cannot be met through reliance upon private enterprise.

Those who contend that title III of the act deals with low-rent housing and title I has to do with clearing slum areas and preparing sites for new uses other than low-rent housing should note the subtitle preceding section 107 of title I—“Payment for Land Used for Low-Rent Housing.” It now reads “Property To Be Used for Public Housing or Housing for Moderate Income Families.” They should also ponder the strong admonition on page 13 of the Senate report in 1949, referring to the “predominantly residential” requirement:

This limitation is fully justified in view of the fact that the primary purpose of Federal aid in this field is to help remove the impact of the slums on human lives rather than simply to assist in the redevelopment or rebuilding of cities.

#### *Private support*

But, as suggested above, there were others who had different purposes in mind. They believed that if the slums could be cleared, they could then be resold at a lower price to private developers so that the latter would then be able to put the land to profitable use. They could do this both by building housing for the upper income groups, and for commercial, industrial or administrative uses. While this group was

also interested in civic betterment and better housing, their primary motive was that of private profit.

But the private developers were not able to do this directly by themselves for several reasons:

(1) In the first place, the private developers felt they could not afford to pay the high prices for land, meet the costs of demolition and clearance, and then bear the additional costs of the new structures. They said in effect that they could and would not go forward unless the Government bore a large part of the acquisition costs of the slum properties by writing down the cost of the cleared land to a point where it would then be profitable for them to build new structures upon it. They also wanted the Government to demolish what was standing in order to be given a clean slate.

On this point the contentions of private developers were strongly supported by arguments from proponents of low and moderate-income housing. They pointed out that in the pre-World War II public housing program under the act of 1937, a large proportion of the projects were on slum sites—that is, on sites previously built on. Local housing authorities, therefore, had to pay not only for the land but also for the old buildings, which despite their condition often cost much more than the land, as well as for demolition and for “non-dwelling facilities”—that is, street paving, sidewalks, sewers, and some facilities for recreation and meetings. These often were lumped together with the cost of the dwellings and the total then divided by the number of housing units provided. Naturally, the per unit costs so derived were higher than those of some modest private housing built on open, relatively cheap, outlying sites. Nevertheless, many local authorities were being sharply criticized for extravagance and inefficiency on the basis of this unfair comparison. Why, it was argued, should not the site acquisition and preparation job be done for both private and public agencies interested in redeveloping slum sites? Both would then obtain land at its “use value”—that is, at a price based on the intended reuse under the redevelopment plan of a locality.

A third argument embraced both public and private rebuilding. It was pointed out that without some effective means for countering high prices for slum land, clearance would proceed very slowly. Even the small amount of rebuilding that did go ahead almost surely would be at high densities as builders, public as well as private, yielded to the pressure to pile more units on a site in order to reduce the land cost, and therefore the total cost, per housing unit

provided. In most cities, particularly the larger and older ones, this would endanger the entire attack on slums and blight. The record was clear (a) that high densities almost always made for blight and slums sooner or later and (b) that increased densities usually were self-defeating as an economy measure—that is, as they were increased, the increase simply encouraged even higher asking prices for land. This vicious circle simply had to be broken if the national housing goals were to be achieved. Public acquisition and preparation of sites plus a write-down seemed essential to large-scale slum clearance and sensible patterns of redevelopment.

(2) Since private developers did not have the right of eminent domain, it was very difficult for them to assemble voluntarily a sufficient quantity of land. The owners were widely distributed and difficult to find. Titles often were in bad shape. Some owners would not want to sell at all, and the refusal of a few could therefore hold up an entire project. Moreover, while every effort would be made by the developers to keep their purchases or options anonymous, the facts of acquisition would almost always become known and those who held out until near the end could exact a much higher price, and hence greatly increase the cost to the developer.

The Government, however, did have the right of eminent domain. It could take private property for a “public” purpose if a “fair” price was paid. This fair price was, of course, subject to ultimate determination by the courts. It was possible, therefore, for the public agencies to act as middlemen, taking the slum property temporarily and then reselling it at a lower price to a developer. The Federal and local governments were to bear the cost of this write-down. This was justified on the ground that the process would replace a slum which was at once a health hazard, a moral cesspool, and an esthetic blight, with better buildings set in a more wholesome environment. As so often happens, idealism was called upon to justify self-interest. Most saw no inconsistency between the two, and by an amalgam of motives and schools of thought, the act was passed.

#### *Relocation—Where do the poor go?*

Those who asked, “What will become of those displaced from the slum?” and “Does not the public have some responsibility for seeing that these families are satisfactorily relocated?” received a two-fold answer: (1) that the 810,000 units of public housing to be built in the next 6 years (under an authorization in title III) would be sufficient to absorb either all or most of those who would be displaced, and (2) that there was private housing elsewhere in which at



least some of the displaced families could be accommodated. It was, however, a public obligation to attempt and satisfactorily perform this effort. Private interests felt they could not assume this added burden of relocation. Because of this attitude and an unfavorable court decision reversing a Chicago relocation ordinance and legislation, it was necessary for the power of eminent domain to be exercised by a public body rather than a private body—even if the latter had a public purpose. Such a transfer of powers to a private body would seem unjustifiable if it refused, as it did in the Illinois instance, to assume the responsibility of caring for the displaced.

#### *Public subsidy*

The net cost of a renewal project, or (a) the gross cost of land acquisition plus (b) demolition costs plus (c) other costs of site improvements (drainage, curbs, walks, etc.) and of supporting facilities (schools, playgrounds, etc.) in or serving the project area plus (d) other costs of planning, administration and interest, minus (e) the price realized from resale of the land, was to be borne by the public—two-thirds by the Federal Government and the remaining one-third by the local municipality. This ratio was later modified for cities under 50,000 where the respective obligations were to be three-quarters and one-quarter.

This relative discrimination against the larger cities was the result primarily of the overrepresentation of the smaller communities in the State legislatures and the Congress, and the attendant bias against the big cities where the need was, in fact, the greatest. It is noteworthy that the Urban Renewal Administration has continuously pointed with pride to the increasing tendency of the smaller communities to come under the urban renewal system. The administrators apparently believe that this has helped to redeem them from the charge of being overly concerned with the needs of the big cities. While large cities of over 500,000 have 42 percent of the total population covered by the program, they have received only 37 percent of the grants.

In fact, the financing formula is more favorable to the cities than is generally thought. It is much more than a "write down" of high land prices. The cost of most of the site improvements and supporting facilities that is added into gross project cost may also be counted as noncash local grants-in-aid toward meeting the local one-third or one-fourth of net project cost. This means that the Federal Government is paying for a part of the site improvements and supporting public facilities. Local cash grants-in-aid of renewal projects amount to about one-

third of the required local third or quarter of net project cost.

A total of \$500 million, to be allocated at the rate of \$100 million a year, was initially authorized by the Federal Government for slum clearance. This was to carry the program up to July 1954.

#### *From slum clearance to urban renewal*

After the elections of 1952, the incoming Eisenhower administration marked time on slum clearance and redevelopment for nearly a year trying to determine what it should do. There was a strong movement within the administration to abandon any additional public housing and either to discontinue or to alter radically the slum clearance program. After the report of the President's Advisory Committee on Government Housing Policies and Programs in late 1953, it was finally decided not to kill public housing but to taper it off very markedly, and to change the thrust of what had been termed "slum clearance and urban redevelopment."

First, it was now to be called urban renewal. This was not merely a substitution of bland language; it was designed to indicate a shift of emphasis away from primary concern about the slums. It was justified as a broader design to rebuild the cities, and not primarily to help the poor. Instead of concentrating on the slums, this program was also to be applied in the "gray" areas, usually just beyond the central city slums.

Second, the emphasis in the future was to be placed on the rehabilitation of existing dwellings and neighborhoods rather than on clearance or "bulldozing." The prevention or, at least, the treatment of blight in its early stages—for example, conservation—was also to be stressed.

Third, instead of exclusively concentrating the Federal funds in areas which were overwhelmingly residential either in their origin or ultimate use, 10 percent of the funds could now be used for other areas. This was called the skid-row amendment. It did help to eliminate some of these, or at least to change their location, but it also had a broader purpose and effect.

In terms of general policy much could be said for more emphasis on rehabilitation and conservation measures. They were by no means new ideas. They were quite feasible before the act of 1954, but more emphasis on them was in order. In the atmosphere of the times, however, this change in emphasis plus the emasculation of the public housing program simply took the drive out of the embryonic attack on the slums. The Advisory Committee's strictures against

"piecemeal attack on slums" and "occasional thrusts at slum pockets in one section of a city" and its proposal for "programs for slum prevention, \*\*\* rehabilitation, \*\*\* and for demolition of wornout structures and areas \* \* \* along a broad unified front \* \* \*" (report, p. 1) came to have a very hollow sound.

In most urban areas the newly christened urban renewal program became, in fact, largely a series of occasional thrusts. Moreover, most of these thrusts were primarily to clear sites for high-income uses of one kind or another. City officials often supported these efforts strongly because they promised to add substantially to the property tax base without greatly increasing the costs of municipal services. Thus, in the absence of any national and effective aid to hard-pressed city finances, the tightening financial bind on most cities became a major factor in the distortion of the redevelopment program.

As time went by not only was the primary original intent of the program lost from sight, but a web of rationalizations and half-truths grew up to the effect that what was being done was what the program was designed to do from the beginning.

#### *Coverage*

By the summer of 1963 all but three States had enabling acts for cities to undertake urban renewal. Only three cities with populations over 500,000 had not come under the program—Houston, Dallas, and San Diego. Los Angeles had originally refused to accept the program, but in the late 1950's reversed itself and somewhat reluctantly joined the ranks.

A number of smaller cities, such as Rockford, Ill., have steadily refused to take part in the program. Nevertheless, by 1963, 702 communities were either making urban renewal plans or were further along on urban renewal projects.

Only a relatively small number—less than 100—of the projects, however, had been completed during the 14 years which had elapsed since passage of the act.

The commercially minded insisted that under the initial 1949 act, while the areas renewed could be residential in their final determination, they only needed to be residential in their origin. Although it was technically true that the bill limited Federal financial assistance to the assembly and clearance of areas which either were primarily residential or which would be redeveloped primarily for residential use, the argument overlooked the strong admonition in the 1949 Senate report, which has already been cited in this chapter.

While the reformers and idealists hoped that

model dwellings and neighborhoods for the poor would arise on the sites of the former slums, many sponsors were attracted by the prospect of high-income-producing properties. These could be in the form of stores, office buildings, and even factories. They could be and, in part, were planned to be luxury apartments. It was hoped that some wealthy business and social families could be lured back to the cities if they could live elegantly close to the business, financial, and cultural centers. These tendencies have been greatly increased over the last decade by further modification in the terms of title I.

Originally, it was to facilitate the rebuilding of slum areas. Then the permission to use 10 percent of the funds in nonslum but otherwise rundown areas (with a "substantial number of slum, blighted, deteriorated, or deteriorating dwellings or other living accommodations") followed in 1954. Five years later (1959) title I was amended by striking out the condition that a renewal area be residential either before or after redevelopment and by substituting this language (sec. 110(c)):

\*\*\* Financial assistance shall not be extended \*\*\* with respect to any urban renewal area which is not predominantly residential in character and which, under the urban renewal plan, therefore, is not to be redeveloped for predominantly residential uses: *Provided*, That if the governing body of the local public agency determines that the redevelopment of such an area for predominantly nonresidential uses is necessary for the proper development of the community, the Administrator may extend financial assistance under this title for such a project. \*\*\*

An additional proviso limited the grant funds for these excepted projects to 20 percent, and this was further raised in 1961 to 30 percent. Finally, in 1965 it was still further increased to 35 percent.

These moves did not go uncontested. The act of 1965 also added section 105(f) to the act of 1949. It set as a condition of contracts for loans and grants (except for the nonresidential projects just mentioned) that the redevelopment of the urban renewal areas of a locality "will provide a substantial number of units of standard housing of low and moderate cost and result in marked progress in serving the poor and disadvantaged people living in slum and blighted areas."

In early 1967, HUD followed this amendment with a change in its regulations that was clearly intended to assure substantially more low- and moderate-income housing in renewal areas. As pointed out elsewhere in this report, Congress in the act of 1968 was even more specific and required that of all housing units built in urban renewal projects in a locality after passage of this act, at least one-half must be for low- and moderate-income families and at least 20 per-



cent for low-income families and individuals (sec. 512 amending sec. 110(f) of the act of 1949).

The Commission wishes to make clear that it does not object to instances where urban renewal makes possible reuse of some slum and blighted areas for other purposes than low-income housing. This has been generally admitted to be necessary since before the passage of the act of 1949. Land-use patterns in urban areas are changing rapidly these days, and probably will continue to do so in the future. Intelligent and continuous local planning is urgently needed, and should not be unduly limited by requirements from other governments. What the Commission does object to is neglect of the housing needs of poor people in urban renewal planning, administration, and action. If renewal agencies persist in this neglect, they will endanger this entire Federal aid program or bring about strict congressional limitations that will seriously curtail local discretion and judgment.

#### *Authorizations increase*

This shift, until 1965, away from its original purposes made the general renewal program more acceptable to various local power structures. Opposition to the authorizations began to diminish as urban renewal rather than slum clearance was stressed, and larger and larger sums were requested by localities and approved by Congress.

The program did not have to be defended now as something for the poor. It became more popular as it began to improve run-down commercial areas, "low-grade" business, "skid-row" and warehouse districts, and particularly as it promised to restore, at least in major part, the position of central business districts with their vast investments of private capital—districts that often were under great pressure from the competition of newer outlying shopping centers and concomitant features of urban dispersal.

Thus, the original 1949 act had authorized a total Federal expenditure of only \$500 million to be expended at the rate of \$100 million a year for each of the next 5 years. When this authorization expired in 1955, a further authorization of \$400 million for the next 2 years was made by the administration and by Congress, or doubled the previous annual rate. In 1957 an additional authorization of \$350 million was made.

The venture was obviously picking up steam and winning relative popularity and respectability. Local business interests were realizing ever more vividly that they could benefit from it by improving their business and commercial centers. Housing needs for the poor were to be increasingly subordinated to the new interests,

and the "slum clearance" part of title I began to fade still further into the background.

The very term "slum clearance" was now frowned upon as having a derogatory implication. Cities were instead now to be "renewed," by the use of money, demolition, and rebuilding and by the return of large numbers of the affluent to the cities from which they had previously fled. Few could object to that. The hidden question was what areas were to be renewed and for whom and for what purposes were they to be given this rebirth. This question was muffled nationally and was left to the cities and to the Urban Renewal Administration in Washington to decide. Since influential local groups largely controlled local decisions and had a strong voice in Washington, their interests and views tended to be controlling. The residents of the areas to be cleared and "renewed," who, incidentally, were to be ousted in the process, were by definition poor, weak, and disorganized. They found it difficult to speak with a strong and coherent voice. Consequently, they tended to be disregarded.

In 1959, Congress authorized \$650 million more for the program and the President released another \$100 million over which he had been given discretionary authority by the original 1949 act. This brought the cumulative total of the authorizations up to a full \$2 billion and the annual rate to a figure which was triple that of 1949.

In 1961, as the requests for funds from the cities mounted and the new Kennedy administration took power committed to intensifying urban renewal, an additional \$2 billion of further authorizations was passed, making a cumulative total of \$4 billion.

Since the act was to run for 3 years, this made possible average authorizations of \$667 million a year or  $6\frac{2}{3}$  times the initial amount. Title I had come a long way since 1949.

By this time, virtually all opposition had ceased. Most of the cities were anxious for help, and what had been unpopular a dozen years before had become an accepted institution.

Urban renewal has benefited in the past from more liberal time and spending allowances than have applied to public housing. This has enabled the renewal authorities both locally and in Washington to delay execution of their programs, secure in the knowledge that the money would be waiting for them in the end.

In the period 1964 through 1968, new large sums were added which increased the authorized totals from just under \$5 billion to over \$10 billion, although this included about \$600 million requested for the model cities program.

TABLE I.—TITLE I GRANT AUTHORIZATION AND UTILIZATION FOR URBAN RENEWAL ACTIVITIES, BY YEAR, FROM INCEPTION

In millions of dollars]

Sources and effective date	Authority provided		Authority utilized <sup>1</sup>		Yearend balance
	Increase	Cumulative	In year	Cumulative	
Housing Act of 1949 (Public Law 81-171):					
July 1, 1949 (fiscal year 1950).....	100	100	101.4	101.4	-----
July 1, 1950 (fiscal year 1951).....	100	200	151.2	252.6	-----
July 1, 1951 (fiscal year 1952).....	100	300	72.1	324.7	-----
July 1, 1952 (fiscal year 1953).....	100	400	29.9	354.6	45.4
July 1, 1953:					
(Fiscal year 1954).....	100	500	26.9	381.5	118.5
(Fiscal year 1955).....	0	500	63.9	445.4	54.6
Housing Amendments, 1955 (Public Law 84-345):					
July 1, 1955 (fiscal year 1956).....	200	700	212.3	657.7	42.3
July 1, 1956 (fiscal year 1957).....	200	900	237.9	895.6	4.4
(Plus \$100,000,000 more at discretion of President. (See Presidential release in fiscal year 1959).)					
Housing Act of 1957 (Public Law 85-104): July 12, 1957 (fiscal year 1958).....	350	1,250	300.0	1,195.6	54.4
Approval by President: (Fiscal year 1959).....	100	1,350	118.1	1,313.7	36.3
Housing Act of 1959 (Public Law 86-372):					
Sept. 29, 1959 (fiscal year 1960).....	350	1,700	330.4	1,644.1	55.9
July 1, 1960 (fiscal year 1961).....	300	2,000	342.7	1,986.8	13.2
Housing Act of 1961 (Public Law 87-70) (beginning June 30, 1961, and until used):					
Fiscal year 1962.....	1,975	3,975	738.0	2,724.8	1,250.2
Fiscal year 1963.....			598.3	3,323.1	659.1
Fiscal year 1964.....			642.4	3,965.5	9.5
Alaska Omnibus Act (Public Law 88-451): Aug. 19, 1964 (Fiscal year 1965) <sup>2</sup> .....	25	4,000	25.0	3,990.5	-----
Housing Act of 1964 (Public Law 88-560): Sept. 2, 1964 (Fiscal year 1965).....	725	4,725	548.5	4,539.0	186.0
Total (Fiscal year 1965).....	750	4,725	573.5	4,539.0	-----
Housing and Urban Development Act of 1965 (Public Law 89-117):					
Total \$2,900, available as follows:					
Fiscal year 1966.....	675	5,400	730.8	5,269.8	130.2
Fiscal year 1967.....	725	6,125	797.3	6,067.1	57.9
Fiscal year 1968.....	750	6,875			-----
Fiscal year 1969.....	750	7,625			-----
Demonstration Cities and Metropolitan Development Act of 1966 (Public Law 89-754):					
Model cities.....	4250	7,875			-----
Housing and Urban Development Act of 1968 (Public Law 90-448):					
Model cities.....	350	8,225			-----
Fiscal year 1970.....	1,400	9,625			-----

<sup>1</sup> Reservations 1950-55 are reconstructed figures since authority was not controlled on a reservation basis until December 1954.

<sup>2</sup> Aug. 5, 1965, Congress approved an Appropriations Committee prohibition against the use of contract authority for making grant reservations. Since then appropriations have been made both for reservations and disbursements.

<sup>3</sup> Under sec. 110(c) "nonresidential exception" at Dec. 31, 1967, there was

\$1,659,055,520 (plus \$58,787,086 not released) for 409 projects in 333 localities. Under sec. 113, "depressed areas" provision there was \$369,520,169 (plus \$40,948,963 not released) for 108 projects in 83 cities.

<sup>4</sup> Only \$100,000,000 appropriated; \$150,000,000 not appropriated.

<sup>5</sup> Only \$1,250,000,000 requested for appropriation; \$750,000,000 was appropriated.

In the two decades since the passage of the original act, the cities have become a potent political force. They are organized in two formal groups—the U.S. Conference of Mayors, representing the larger cities, and the National League of Cities, generally representing the smaller municipalities. Each of these organizations has a sizable and competent Washington staff. Individual mayors also wield strong independent power, and their influence has insured a respectful, and generally favorable, hearing for the claims of their cities. The cities no longer must appeal to Washington through the medium of the States or by the grace of State political leaders. They are powerful and independent forces on their own.

#### REHABILITATION

As mentioned briefly above, in 1954 another basic change was made by the new administration. Public housing was cut to a greatly reduced rate of about 10,000 units a year. In its place, the rehabilitation of existing structures was pushed to the fore. An example of it in Baltimore had been widely advertised. Its pro-

ponents contended that it avoided two weaknesses.

First, rehabilitation would be an answer to rising complaints that urban renewal was bulldozing whole districts and uprooting the families to make room for commercial buildings, high-rent apartments, and public edifices.

Second, rehabilitation was represented by many of its more vocal advocates as a workable substitute for public housing, which for some curious reason was blamed for the disruption. Instead of building large-scale, impersonal housing projects, rehabilitation was designed to fix up the housing that already existed. This would also keep it to a large degree under private ownership, avoid the charge of collectivism in public housing, increase the local tax base, and help the cities meet their financial problems.

Along with rehabilitation, emphasis was now placed on local building codes which would prevent grossly inferior structures from being constructed and on housing codes which would lay down minimum standards of health and safety to which existing housing must conform. Localities were required to include such provisions in a "workable program" in order to be eligible



for Federal aid for urban renewal. The 1954 statute did not, however, attempt to define what the proper content of these codes should be. It did not even define explicitly what a "workable program" would be.

Nearly every major city already had a building code, but not more than 50 to 100 cities had housing codes at that time. They now began rapidly to pass such codes, and by 1968 about 5,000 units of government had adopted at least a paper code. The health standards in these codes were generally based on the work which had been done years before by the American Public Health Association.

How vigorously these codes were enforced was another matter. In any event, the emphasis upon rehabilitation had shown the necessity for having minimum standards to which the existing housing was to be raised.

Several problems emerged almost immediately:

(1) How was it possible to get individual owners, many of them financially hard-pressed, to assume the often expensive job of rehabilitation voluntarily?

(2) If voluntary efforts failed, what substitute methods should be used?

(3) Could rehabilitation be successfully carried out either on a small scale, or without massive efforts to improve the environment? In these cases, would it not be engulfed by the surrounding and usually deepening blight?

(4) If the Federal Government requires localities to impose housing standards on existing housing, does this create an obligation for it to aid those individuals and cities who are expected to conform?

On June 2, 1967 the President appointed a committee headed by Mr. Edgar F. Kaiser to study the question of how to rebuild America's slums. Its primary task as set forth by the President was to examine the problem of rehabilitation in housing, namely:

(1) How can the resources and talents of private industry be directed in the "rehabilitation" of urban slums; and

(2) To examine every possible means of establishing the institutions to encourage the development of a large scale efficient "rehabilitation" industry.

With this very special emphasis on "rehabilitation" given to the Kaiser committee, this Commission determined that in order not to duplicate work, it would depend upon that committee for the major effort to examine and report on rehabilitation.

Consequently we have limited our examination of the subject and look forward to their detailed examination and recommendations con-

cerning the vexing problem of rehabilitated housing.

#### PROGRESS AND PROBLEMS TO DATE

##### *General problem*

It is difficult to judge urban renewal. The major problem in attempting to do so is to disentangle the actual achievements from those that are underway or merely planned. These three sets of figures are often combined in ways that make it hard to separate them. Aspirations and plans are often confused with performance. Authorizations and contracts entered into are sometimes published as tangible evidence of progress. These figures are greatly in excess of the actual work completed.

##### *Demolitions*

Table 2 shows that by the end of 1967, no less than 1.1 million dwelling units in the urban renewal areas of the country had been identified as needing either rehabilitation or demolition.

Thus, more than three-quarters of a million demolitions were planned under urban renewal, and 404,000 of them, or 53 percent, had already been carried out.

The problems under rehabilitation appear more difficult. Only 86,000, or a little less than 25 percent, of the units had been completed. This left 264,000, or 75 percent, that had either not been started or were underway. Since these latter figures were not separated, it is impossible to determine what proportion represents a partial achievement and what is merely an aspiration. Moreover, rehabilitation has been adversely affected by the very fact of urban renewal requiring demolition. Few want to put their money into an area whose future is uncertain. This doubt is intensified by the inordinate delays which have marked so many of the renewal projects.

TABLE 2.—REHABILITATION AND DEMOLITION NEEDS IN URBAN RENEWAL PROJECTS AS OF DEC. 31, 1967 (NUMBER OF DWELLING UNITS)

Item	Completed	Not started or underway	Total
Demolitions.....	404,000	356,000	760,000
Rehabilitation.....	86,000	264,000	350,000
Totals.....	490,000	620,000	1,110,000

Source: Department of Housing and Urban Development, RAA.

##### *Scope of urban renewal*

By 1968, HUD and its predecessors had approved 1,946 urban renewal projects in 912 communities. Of these nearly a sixth, or 338, had been completed; 1,031, or a little over a half, were in the process of execution, and 571, or just short of 30 percent, were still in the planning stage.

Every State in the country had one or more projects. As table 3 shows, urban renewal had a broad geographical base, although the random selection of states shows wide variations in the number of participating localities.

TABLE 3.—NUMBER OF LOCALITIES WITH URBAN RENEWAL PROGRAMS IN A RANDOM SAMPLE OF STATES

State:	Number of localities with programs
Vermont .....	1
New York .....	79
Delaware .....	1
Pennsylvania .....	108
Florida .....	5
Georgia .....	42
North Dakota .....	3
Michigan .....	53
Louisiana .....	2
Texas .....	23
Arizona .....	4
California .....	42

Source: Robert P. Groberg, "Urban Renewal Programs Assisted by Title I of the Housing Act of 1949." Research study for the National Commission on Urban Problems, table B-2.

Another classification, by size of the cities participating, shows the number of cities in each size category, the number of projects in cities of that size, the total number of grants approved for these projects, and the percent which these approved grants form of the total sums approved.

TABLE 4.—DISTRIBUTION OF URBAN RENEWAL PROJECTS AND GRANTS BY SIZE OF CITIES

Population group (1960 census)	Localities	Projects	Grants approved	Percent of total grants approved
Total .....	912	1,947	\$5,253,871	100.0
1 million and over .....	5	155	962,956	15.3
500,000 to 999,999 .....	16	96	907,619	14.5
250,000 to 499,999 .....	29	176	975,260	15.6
100,000 to 249,999 .....	68	269	1,103,444	17.6
50,000 to 99,999 .....	116	298	843,094	13.9
25,000 to 49,999 .....	167	289	597,867	9.6
10,000 to 24,999 .....	252	349	562,878	9.0
5,000 to 9,999 .....	145	185	180,836	3.0
Under 5,000 .....	114	130	120,117	1.9

Source: Groberg, "Urban Renewal Programs," table B-3.

Comparing these amounts with the proportions of the urban population (i.e., 125.3 million) which cities of various sizes had formed in 1960, we find that cities over a million received approximately their proportionate share. Cities from half-a-million to a million accounted for slightly more than 8.8 percent of the urban population but received more than 14 percent of the grants. Cities from a quarter to a half-a-million included 8.6 percent of the urban people and obtained 15.6 percent. Smaller cities from 100,000 to 250,000 had 9 percent of the urban population and obtained 17.6 percent

of the grants. Cities from 25,000 to 100,000 had 23 percent of the urban population and received that same proportion of the grants.

On the whole, there was a rough proportioning of the distribution of the grants to city population size, except that cities from 100,000 to a million tended to be somewhat favored. Since the smaller communities under 25,000 do not generally have a concentrated slum problem, the fact that these communities with about 28 percent of the population received a little over 13 percent of the grants was both natural and normal.

By the middle of 1967, a total of 37.2 thousand acres had been acquired under the urban renewal programs but only 17.4 thousand acres had been disposed of. This left almost 20 thousand acres whose future was undetermined.

#### *Financial aspects*

The Federal Government meets only two-thirds of the net project costs for cities of over 50,000 population; those under this figure receive three-quarters. Table 5 indicates how these programs were distributed between the larger and smaller cities.

TABLE 5.—DISTRIBUTION OF URBAN RENEWAL FUNDS AMONG LARGER AND SMALLER CITIES

[In millions of dollars]

Population	Total amount authorized	Proceeds from land sale	Percent of total	Net project costs
Under 50,000 .....	904	180	20	783
Over 50,000 .....	5,300	1,365	26	3,935

Table 6 gives the percent of gross project costs for the major activities of urban renewal programs in the larger cities. The allocations are closely similar to those in the  $\frac{3}{4}$ - $\frac{1}{4}$  group.

The major costs of renewal projects are for land acquisition, site improvement, and public facilities. The relatively small amounts spent for the relocation of displaced persons and for rehabilitation are quite striking. They raise serious questions as to whether sufficient importance is being given to these functions.

#### HOW THE CONTRIBUTION OF THE CITIES WAS PROVIDED

As noted earlier, local contributions to urban renewal for the net project costs do not have to be made in the form of cash alone. Table 7 gives a summary of the noncash contributions for 777 projects authorized under the two-thirds grant and 352 projects under the three-fourths grant. The percentages of new project costs which each formed are also given.



TABLE 6.—SUMMARY OF URBAN RENEWAL COSTS BY MAJOR PROJECT ACTIVITY

Item	Percentage of gross project costs
1. Survey and planning-----	1.8
2. Land acquisition and disposition-----	63.7
(a) Real estate purchase-----	60.5
(b) Land acquisition expense-----	1.3
(c) Property management-----	.6
(d) Land disposition expense-----	.5
(e) Land donations-----	.8
3. Relocation (not including relocation payments)-----	.5
4. Site clearance-----	3.3
5. Site improvement-----	10.6
6. Public or supporting facilities-----	9.1
7. Credit for expenditure for public housing and colleges and hospitals-----	2.1
8. Interest-----	3.9
9. Project administration and overhead-----	4.0
(a) Administrative-----	3.0
(b) Legal-----	.5
(c) Inspection-----	.5
10. Conservation and rehabilitation-----	.3
11. Contingencies-----	.7
Total-----	100.0

Source: Groberg, "Urban Renewal Programs," table D-4.

TABLE 7.—SOURCE OF NONCASH CONTRIBUTIONS

(Dollar amounts in millions)

Item	Under $\frac{3}{4}$ grant		Under $\frac{1}{4}$ grant	
	Amount	Percent of total new project costs	Amount	Percent of total expenditures
1. Cash-----	\$477.2	12.1	\$61.1	7.8
2. Public facilities-----	481.1	12.2	79.1	10.1
3. Site improvements-----	243.3	6.2	43.2	5.5
4. Donations of land-----	40.8	1.0	8.2	1.0
5. Local demolition and removals-----	10.6	.3	3.0	.4
6. Credits for-----	107.4	2.8	16.3	2.1
(a) Public housing-----	(25.2)	(.7)	8.1	(1.0)
(b) Expenditures by colleges and hospitals-----	(82.2)	(2.1)	8.2	(1.1)
Total-----	1,360.4	34.6	210.9	26.9

The larger cities met 12.1 percent of the total net costs in cash as compared with only 7.8 percent in the smaller cities. It can be seen that more than half of the reduction in the local share from one-third to one-fourth was translated into a reduction in the cash payments. It has yet to be demonstrated that the smaller cities have been in any more difficult financial position than the larger ones.

There were efforts on the part of the localities, sometimes abetted by Members of Congress, to inflate the value of noncash contributions to the local quotas. Sometimes this took the form of claiming credit for expenditures which did not bear any close connection with the specific projects authorized. It is to the

credit of HUD and the more responsible members of the Banking and Currency Committee that they finally moved to place a closer check on allowable noncash credits.

Another financial aspect that has received the Commission's attention is cost of acquiring real property for public improvement. Looking far into the future, we can predict that the cities will eventually be required to reclaim for reuse areas they are now acquiring and disposing of under urban renewal programs. By retaining ownership and leasing the land to developers for 60-, 75- or 99-year terms, the cities could save the public the expense of ultimate reacquisition and preserve for the public the increment in value of the land. There is no evidence to suggest that developers would be adversely affected by leasing arrangements.

#### TYPE OF COMMUNITIES RENEWED AND WHAT HAPPENED TO THEM

A survey of 1,155 projects showed as of June 1966 that 771, or 67 percent, were predominantly residential before urban renewal was initiated. In the areas which were scheduled for clearance, no less than 372,000 of the housing units—82 percent of those which were reported on—were judged to be substandard.

After urban renewal, only 497 of the areas, or 43 percent, were predominantly residential. There was, therefore, a distinct shift from residential to nonresidential uses of urban renewal land.

In terms of acreage, there was a shift of 10,700 from residential to nonresidential uses, of which 7,000 acres were for public purposes, such as Lincoln Center in New York City and the civic centers in Hartford and St. Paul, and 3,700 for private uses. Other places where large community developments were carried out were the historic section of old Philadelphia around Independence Hall, including Carpenters Hall, the Bank of the United States, etc., and the civic center which replaced Scollay Square in Boston, the former skid-row area.

Of the 439 projects approved for planning during the 3 years 1966-68, 65 percent were in or adjacent to central business districts. But another 9 percent were in or close to outlying business districts. This showed a gradual tendency in the very large cities to begin to move outward to the neighborhood shopping centers.

Very few of those who were displaced were able to return to the renewed areas. This was due, in part, to the fact that before their own homes fell under the wrecker's ball, they had to seek sanctuary elsewhere. They made new connections which they did not want to sever in order to return to a community much altered

from that in which they had lived. As the years wore on before rebuilding was carried out, any return became more and more unlikely.

But an even stronger reason was the fact that the rent for most of the new housing units created on the urban renewal sites were so high that the vast majority of the original occupants could not afford to return. They were priced out of their old quarters. The majority of those displaced were poor and most of the remainder were either in the near poor class or in the lower middle class.

TABLE 8.—STATUS OF CONSTRUCTION OF DWELLING UNITS PLANNED ON LAND COMMITTED TO REDEVELOPERS IN URBAN RENEWAL PROJECTS, 1966-67

	June 30, 1966		June 30, 1967	
	Number	Percent	Number	Percent
<b>CONSTRUCTION PLANNED</b>				
Total dwelling units.....	173,924	100.0	195,999	100.0
Total low and moderate units.....	58,519	33.6	73,931	37.7
(a) Public.....	13,815	7.9	18,766	9.6
(b) 221(d)(3).....	22,894	13.2	30,778	15.7
(c) Other.....	21,810	12.5	24,387	12.4
Total other than low and moderate units.....	115,405	66.4	122,068	62.3
<b>CONSTRUCTION COMPLETED</b>				
Total dwelling units.....	89,791	100.0	106,961	100.0
Total low and moderate units.....	34,791	38.7	41,580	38.9
(a) Public.....	8,467	9.4	10,760	10.1
(b) 221(d)(3).....	9,675	10.8	11,960	11.2
(c) Other.....	16,604	18.5	18,860	17.6
Total other than low and moderate units.....	55,045	61.3	65,381	61.1

Source: Groberg, Urban Renewal Programs, table E-5.

Approximately 400,000 dwelling units have been demolished in urban renewal areas, the majority of these being housing for low- and moderate-income families. Of the 195,999 dwelling units now planned for these same sites, only 18,766—less than 10 percent—will be public housing, and only 10,760 of these public housing units are now actually in existence. Of the total units planned, 62.3 percent will be for middle-income, upper-income and relatively affluent residents.

The 400,000 demolished units are gone, and only 41,580 units of low- and moderate-income housing have taken their place. Eventually, 73,931 units will be constructed. When measured against demolition (400,000 units) rather than actual and planned construction (195,999 units), the percentage of *public* housing becomes less than 5 percent. It should be noted that most of the "low- and moderate-income" housing construction enumerated in table 8 is actually designed for those in the upper ranges of the moderate-income category.

The luxurious high-rise and garden apartments were a pleasant contrast to the evil slums that had once defaced the area. But where had the families who lived in the slums gone?

#### CONGRESS ATTEMPTS TO HELP THE DISPLACED

In 1956 Congress took the initiative to give some tangible help to the families and businesses that were being forced to move because of urban renewal. Acting without any encouragement from the administration, the Senate Banking and Currency Committee, after a sharp struggle, provided that the actual moving expenses of displaced families and individuals were to be reimbursed up to a maximum of \$100. The corresponding maximum allowance for displaced businesses was \$1,000. Later these were raised to \$200 and \$3,000, respectively, and in 1965, an additional \$2,500 was authorized for displaced private businesses when net earnings were less than \$10,000 a year. A further relocation adjustment payment of up to \$500 was authorized to assist the displaced who were 62 years or over to obtain a decent home if 20 percent of their income would not enable them to rent such accommodations.

Table 9 gives details on relocation payments through mid-1966.

TABLE 9.—RELOCATION PAYMENTS TO FAMILIES, INDIVIDUALS, AND BUSINESSES

	Cumulative, June 30, 1966	Cumulative, June 30, 1967	Fiscal year 1967
<b>FAMILIES</b>			
Moving expenses:			
Number of cases.....	139,100	158,543	19,443
Amount.....	\$10,477,087	\$12,330,405	\$1,853,318
Average payment.....	\$75.32	\$77.77	\$95.32
Relocation adjustment:			
Number of cases.....	7,849	13,246	5,397
Amount.....	\$2,794,935	\$4,820,054	\$2,025,119
Average payment.....	\$356.09	\$363.89	\$375.23
<b>INDIVIDUALS</b>			
Moving expenses:			
Number of cases.....	54,595	64,114	9,519
Amount.....	\$2,648,894	\$3,273,175	\$624,281
Average payment.....	\$48.52	\$51.05	\$65.58
Relocation adjustment:			
Number of cases.....	2,841	5,316	2,475
Amount.....	\$1,157,229	\$2,176,328	\$1,019,099
Average payment.....	\$407.33	\$409.39	\$411.76
<b>BUSINESSES</b>			
Moving expenses:			
Number of cases.....	38,778	46,967	-----
Amount.....	\$69,753,801	\$89,766,229	-----
Average payment.....	\$1,798.80	\$1,911.20	-----
Displacement payments:			
Number of cases.....	6,415	10,660	-----
Amount.....	\$11,861,500	\$22,464,005	-----
Average payment.....	\$1,849.03	\$2,105.75	-----

In 1961, Congress recognized that it was both unfair and futile for governments to require the poor to rehabilitate the houses in which they lived when they were financially unable to do so. It authorized section 115 grants of up to



\$1,500 (now \$3,000) to homeowners with incomes under \$3,000 a year, and low interest loans of up to \$3,000 under section 312.

Congress also began to provide funds to help localities enforce their housing and building codes through the "workable program." The obvious purpose of this was to stimulate local governments to keep their existing housing stock up to par instead of letting it run down so badly that they would then call on the Federal government to clear the area and start anew.

#### A CHANGE OF DIRECTION

The original title I provisions did not prevent the erection of public housing on urban renewal land, as often asserted. But cities were not given a credit for installing "facilities" if they did so. This was on the principle in the act of 1949 that noncash local grants-in-aid could not include site improvements of facilities that received Federal grants or subsidies under any other aid program. If a public housing development was supported by a new school building or some neighborhood facility that normally was not a part of the housing project, the outlay for this or some part of it could be counted as a noncash grant. What the public housing law referred to as nondwelling facilities in a project could not be so counted. This meant that the land cost of public housing projects had to be financed out of the very meager housing funds, and cities or redevelopment authorities had to pay more cash toward their third (or one-fourth) of net project cost under the renewal program. For most renewal projects cash grants were about one-third of the total local grants-in-aid. No consideration was given to the fact that cities, by accepting the 10 percent of net rents in lieu of taxes, were already subsidizing public housing.

Moreover, public housing payment in lieu of taxes would be much less than the tax receipts from garden apartments or high-rise buildings for the affluent. Therefore, the financial managers of cities wanted to reserve these acres for the tax-paying well-to-do. So did at least many of the Federal urban renewal authorities, who often claimed that they were forbidden by the 1949 law to do otherwise. It was some time before the original advocates of the act discovered that this was happening and that virtually no public housing was going up on urban renewal land.

When liberal Members of Congress were alerted to these developments, they tried to change the law. But they had little support from either the cities or the HIIFA. Finally in 1959, following the 1958 election, they were in a strong enough political position to provide that in com-

puting local grants-in-aid for public housing projects on renewal sites, the 10 percent in lieu of taxes would be taken as a local grant amounting to one-half of the difference between the cost of the site (including site improvements but not supporting facilities) and the sale price of the site to the local housing authority.

This was a substantial gain, but it was partially offset by an amendment to the same section governing the price of renewal land sold for public housing. The act of 1949 had simply provided that "payment equal to the fair value of the land for the uses specified in accordance with the redevelopment plan shall be made therefor by the public housing agency undertaking the housing project. \* \* \*" The amendment in the act of 1959 provided that the local housing authority should pay "a price equal to the fair value of land to a private developer \* \* \* for private rental housing with physical characteristics similar to those of the proposed low-rent housing project. \* \* \*" In other words, land in public projects would be priced on the basis of "fair value" for a development with roughly twice the rental income of the public project. If there ever was a perversion of the much-acclaimed principle of *use value* in urban renewal, this was a fine example.

By raising the cost of renewal land for public housing, this pricing formula reduced the imputed value of the 10 percent in lieu of taxes in renewal financing. But it did not greatly affect the financial position of cities in either renewal or public housing. Its primary effect was to shift a part of the write-down of land acquisition prices from urban renewal to public housing funds. Because, as noted above, these latter funds were inadequate for any reasonable effort in low-rent housing, the secondary effect was to assure that not much public housing would be provided in renewal sites unless or until the housing program was substantially stepped up.

This amendment of 1959, however, reduced one obstacle and timid ventures began. But the greater tax-paying abilities of the affluent still militated against use of much of the land for low-income housing. As public criticism mounted, however, HUD also began to reconsider its policy. Finally, in the late spring of 1967, it declared that *future* urban renewal projects submitted to HUD should provide primarily for housing for the poor. As cities pointed out, however, the pipeline was so long that it would take many years before the new projects could come to fruition.

Under the 1968 act at least half of the new housing on approved renewal sites in the future must be for low- and moderate-income groups. Because of the long delays in the process, the

effects of this new policy will not be felt for years.

As previously noted, however, 20,000 acres of urban renewal land have not been committed as yet. It is available to build on and a large share of it could be set aside for public housing. While general plans may have been made, changes could be accomplished in many instances, since HUD retains control over future approvals and hence is in a strong bargaining position. This battle is still going on.

#### ACHIEVEMENTS OF URBAN RENEWAL

Well over \$7 billion has already been spent or committed for urban renewal from all public sources. In addition, billions of dollars have been spent by private industry in rebuilding the cleared areas. What has been the net effect? Let us first list the successes.

(1) Urban renewal has improved the physical appearance of many hundreds of American cities. Those who remember Philadelphia as it was 30 years ago must be impressed by the great improvement that has taken place along the great shopping center of Market Street, around city hall, along the waterfront, and around Independence Hall. It seems like a new city. So does the central city of Boston, which had been physically disintegrating for many years. Areas on the Southside of Chicago have been transformed from a loathsome slum to a gleaming white and glass city. The Hyde Park-Kenwood area near the University of Chicago has been rehabilitated for pleasant living and has had a face-lifting. Many areas in the 7 miles from the Loop to 61st Street have been physically transformed. The Yale Yard in New Haven, so dear to the hearts of tens of thousands of Yale alumni, has been rescued from encroaching blight. Smaller cities have been spruced up, and there is little question that urban America presents a far better appearance than it did two decades ago.

(2) Commercial, business, and administrative groups have built offices within the central cities. This has increased land values in the urban business cores and has raised the tax base. The greater decline in the cities' economic foundation which would otherwise have occurred has been, in part, arrested.

(3) Urban renewal has helped to attract some of the affluent and the well-to-do to gracious living quarters within the central cities. This is especially true of younger families with few or no children, and of the elderly whose children have grown up. Those who can afford the rents have obtained access to some services and advantages that most urban living does not afford.

(4) Public organizations have been able to build more impressive and functional buildings and to contribute to the general civic improvement. In addition to the new centers already mentioned, the Chicago campus of the University of Illinois has come into being. In Detroit, facilities for Wayne State University, a new hospital, an industrial park, and luxury housing are in various stages of planning or construction on what was slum land. These examples could be multiplied many times.

(5) Some smaller cities and urban counties have been stimulated by the availability of urban renewal funds to develop a capability for comprehensive urban planning which they previously lacked.

(6) The execution of urban renewal projects seems to have been accomplished honestly and without graft or scandal.

#### WEAKNESSES OF URBAN RENEWAL

(1) The first great weakness in carrying out urban renewal has been the unconscionable amount of time consumed in the process. The chart at the end of this chapter shows the sequence of operations which must be carried out through the Urban Renewal Administration before actual work can begin on a project, and the long, drawn-out process by which an urban renewal project starts in a locality and then, in the planning stage, moves through the regional office to the central office. This is followed by two further round trips when loans and grants are considered.

The average length of time at each of the stops in the three main stages is also shown. On the average, 544 days were consumed in stage 1—survey and planning. The next stage, the first round of passing on loans and grants, took an average of 706 days, and the final stage, 337 days. These data, provided to the Commission by the Urban Renewal Administration, were generally confirmed by the President's Joint Administrative Task Force, which found that the original processing time for urban renewal took 495 working days.

Since this was the average, a considerable proportion of the total number of projects took more than  $4\frac{1}{3}$  years even to put into contract form.

But this was only the beginning. Only now could the work of acquiring the land start. This was followed by demolition, by arranging for final land acquisition and land disposition, and finally by new construction. In other words, after  $4\frac{1}{3}$  years, the community would be permitted to start another long process. It is not unfair to say that the initial stage was merely the beginning of preparations toward the start



of procedures which would lessen some of the preliminary difficulties which otherwise would have delayed the commencement of urban renewal!

From the record of every urban renewal project which had been "completed" by December 31, 1966, the Commission staff has classified the projects by the amounts of time taken from start to completion. Each project is taken as a unit.

Table 10 shows that the most common (modal) time from beginning to end was between 6 and 9 years. There were 85 projects in this class, or virtually 30 percent of the total. There were 105 projects, however, or more than 36 percent, which took more than 9 years, and a number of projects which took more than 12 years. Finally, there were 10 which took more than 15 years before it could be said that they were completed. (It should be noted that urban renewal work sometimes hangs fire toward the end, because of legal procedures in connection with land acquisition, so that its formal completion is delayed, although the work is virtually finished. Such, for example, has been the experience of the Baltimore 36-block rehabilitation project.)

TABLE 10.—TOTAL TIME ELAPSED IN COMPLETION OF URBAN RENEWAL PROJECTS

Time taken in years	Number	Percent
0 to 3.....	27	9.4
3 to 6.....	71	24.6
6 to 9.....	85	29.5
9 to 12.....	64	22.2
12 to 15.....	31	10.7
Over 15.....	10	3.5
Total.....	288	100.0

Source: Commission staff study from HUD statistics.

Table 11 shows time taken by the 979 projects which, though started, had not been completed by the end of December 1966. Since the work was not completed, the results tend to minimize the actual amount of time which would ultimately be taken.

Slightly more than half of the total (51 percent) were late starters with less than 6 years of experience. But no less than 476, or virtually the other half, had already taken more than 6 years, with the end not yet in sight. No less than 226, or 23 percent, of the total, had waited for more than 9 years, while 89, or 9 percent, had been in the mill for more than 12 years, and 46, or between 4 and 5 percent, had waited for more than 15 years.

Table 13 shows the time needed to carry out the various phases of 194 urban renewal projects in the Chicago region, which are believed to be relatively representative. The classification projects the number of months from the approxi-

TABLE 11.—TIME TAKEN IN YEARS PRIOR TO CUTOFF DATE OF JAN. 1, 1967

Time in years	Number	Percent
0 to 3.....	109	11.1
3 to 6.....	394	40.3
6 to 9.....	250	25.5
9 to 12.....	137	14.6
12 to 15.....	43	4.7
Over 15.....	46	4.7
Total.....	979	100.0

Source: Commission staff study from HUD statistics.

mate time the contracts were approved to the completion of 25, 50, 75, and 100 percent, respectively, of the acres involved, and shows these for each of the five stages.

It should be realized that these percentage figures reflect time in addition to the time taken inside the bureaucracy before the contract is signed. We have already seen that this generally amounts to several years. Even when these steps have been finished, there is a further delay while the construction of new buildings on the site is being planned and carried out.

It is significant, however, that it took 57 months, or nearly 5 years, before the Government's part could be even 25-percent completed, and 75 months, or 6½ years, before the 50-percent mark was reached. Then, in order to reach 75 percent, no less than 122 months, or slightly more than 10 years, would be required. Finally, for all of the steps to be completed on all the acreage, a full 132 months, or 11 years, was needed.

The statistics of this table are shown graphically and in more detail in chart 1. It will be seen that the gap in time between land acquisition, demolition, and relocation on the one hand, and site improvement on the other is especially great, and that there is a further long interval between the completion of the site improvements and the final disposition of the land.

The time required in this sample is appreciably longer than in the Commission's internal staff study. This is probably due to the fact that the latter took projects as units and treated the small projects equally with the large. The former, on the other hand, took acres as the unit and since the bigger projects took longer than the small ones to acquire, demolish, install improvements and facilities, and sell, we would naturally expect more time to be consumed.

But whatever the measurement, the time required is unconscionable.

Delays greatly increase the monetary and human cost of urban renewal and do serious damage to the people involved, to the neighborhood, and to the city as a whole. In the first place, money must be borrowed by the local and Federal Governments before it is spent. Interest must be paid on it in the meantime. While the

money lies idle or relatively idle, added expenses mount. Moreover, as time goes by, land values increase, and land costs more to buy. Wages and the costs of construction also increase. The whole enterprise comes to cost more than was originally estimated. Sometimes the proposal must be abandoned and the money spent on it is irretrievably lost.

Moreover, the knowledge that urban renewal is coming casts a pall over activity in the affected area. The fact that some of the buildings will ultimately be bulldozed has made many property owners reluctant to improve what they own. It even checks minor repairs. Why fix up buildings which will soon be scrapped? Why keep a neighborhood spic and span when it will soon be completely altered? Why, indeed, should a family stay in an urban renewal area which in its original form is doomed to destruction? Is it not better to hunt for other quarters as quickly as possible, and get out before the renewal area deteriorates further?

In the words of an old advertising slogan, "coming events cast their shadows before." Neighborhoods and houses run down, and in spite of housing codes or financial aid that may be offered, few want to invest in a sinking ship. When this process goes on for even 3 years, it is bad enough. But when it goes on for 5, 8, or 10 years, it is absurd. And if for 12 or 15 years, which we have seen happen, it is utterly catastrophic.

In saying this we recognize that the traumatic period of a renewal project does not last until the last structure has been finished and occupied, the last curb has been poured, the last papers signed and delivered, and the project is formally and legally completed. Usually the worst is over after land acquisition, relocation of displaced families and businesses, demolition and the completion of most of the new buildings (on, say, roughly two-thirds or so of the buildable area of the site) and of a similar proportion of supporting facilities. Much depends, of course, on whether at about this stage the new buildings, site improvements, and public facilities are about equally advanced. If so, the project area may still be decidedly messy, but the undertaking is a going concern and, if reasonably well done, breathes new life and hope. As the facts just cited indicated, however, it usually takes many years to reach this position and the costs in time, carrying charges, and human wear and tear are great—unnecessarily great.

President Johnson properly ordered HUD in 1967 to speed up and cut its processing time in half. Our survey, not only of processing but also of time in execution, indicates that the situation is even more serious than it was then believed.

It is crucially important that the overall time be reduced by at least two-thirds.

(2) The second great weakness in urban renewal is that even if one takes into account all the other programs, it has in itself failed to help the poor and near-poor who make up most of those who have been displaced. They have not been rehoused on the urban renewal sites, nor has the total volume of public housing been adequate to meet the needs created by demolitions, deterioration, and population growth. Relocation efforts have brought mixed results. But urban renewal has in the past gone on its way relatively oblivious to the housing needs of the poor, although it has not been as indifferent as the highway program, which in the past has demolished several hundred thousand homes without showing until recent years the least tangible interest in what happened to the occupants.

TABLE 12.—194 URBAN RENEWAL PROJECTS IN HUD REGION IV, BY YEAR OF APPROVAL

Year project was approved :	Number of projects approved
1967 -----	16
1966 -----	23
1965 -----	29
1964 -----	33
1963 -----	19
1962 -----	14
1961 -----	16
1960 -----	10
1959 -----	14
1958 -----	10
1957 -----	6
1956 -----	1
1955 -----	1
1954 -----	1
1953 -----	1

NOTE.—This data relates to table 13 and chart 1. The 194 projects reported here for execution activities began in 1953. They vary in size from 5 to 1,200 acres. But surprisingly size had no significant bearing on the length of time it took to reach the stages of project execution shown in chart 1. The implications of this fact deserve further study but are material to the main point here, namely, the gap between land acquisition, relocation, and demolition, on the one hand, and site improvements and land disposition on the other.

TABLE 13.—TIME NEEDED TO CARRY OUT URBAN RENEWAL PROJECT ACTIVITIES

	Number of months required to accomplish major urban renewal project activities				
	Land acquisition <sup>1</sup>	Relocation <sup>1</sup>	Demolition <sup>2</sup>	Site improvements <sup>3</sup>	Land disposition <sup>4</sup>
Percent of activities completed:					
100 -----	48	54	54	126	132
75 -----	32	35	36	80	122
50 -----	16	26	27	52	75
25 -----	10	15	19	42	57

<sup>1</sup> Land acquisition and relocation began during the 1st month reported.

<sup>2</sup> Demolition began during the 6th month reported.

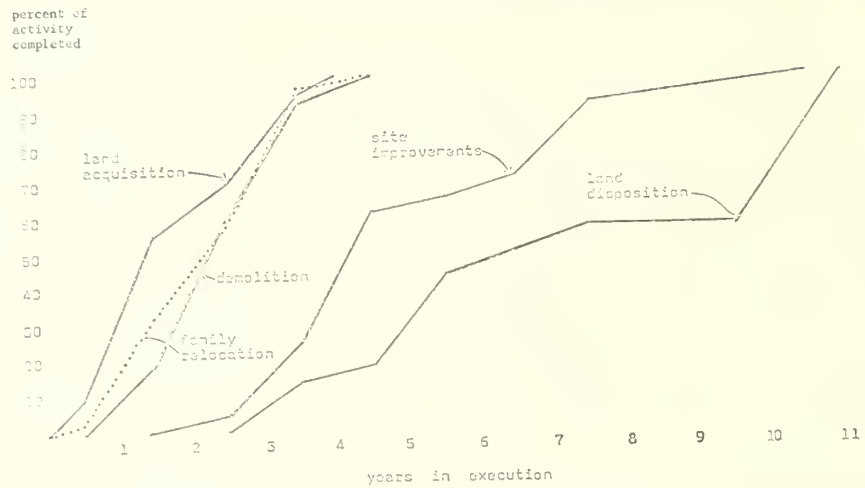
<sup>3</sup> Site improvements began during the 17th month reported.

<sup>4</sup> Land disposition began during the 30th month reported.

Source: RAA in HUD. Based on experience with 194 projects in execution in HUD region IV as of Sept. 30, 1967.



CHART 1.—TIME FOR URBAN RENEWAL PROJECT EXECUTION ACTIVITIES



(Based on project execution times for 194 projects in HUD Region 4 in execution as of September 30, 1967.)

TABLE 14.—PROCESSING TIME INVOLVED IN URBAN RENEWAL PROGRAM

Step	Agency and office	Action taken	Days for—		
			S. & P.	L. & G. I	L. & G. II <sup>1</sup>
1	Local urban renewal agency	Prepare analysis, coordinate planning	45	245	60
2	Mayor and council	Authorize filing, S. & P. approval			
3	Local urban renewal agency	Forward S. & P. to regional office; submit L. & G. I and L. & G. II to regional office when local action complete.			
4	Regional office:				
	Renewal assistance office:				
	Process control and reports	Receive, log in, check for completeness, route available copies of application to staff.	3	8	5
5a	Program planning and engineering	Review, comment	30	45	10
5b	Rehabilitation and codes	do	5	15	10
5c	Social services	do	27	25	12
	Real estate:				
5d	Acquisition	do	22	15	18
5e	Disposition	do	15	20	22
5f	Fiscal management	Review, prepare budget	21	20	1
5g	Equal opportunity (intergroup relations)	Review, comment	25	32	15
5h	Regional counsel	do	24	48	12
5i	Program coordination and services division:				
	Relocation	do	10	25	12
5j	Plan	do	35	43	18
5k	Economic and market analysis	do	15	21	10
6	Renewal assistance office: Processing control and reports	Resolved comments determine if application should be returned; require additional information if needed; prepare wrapup; routing.	40	43	16
7	Local urban renewal agency	Respond to regional request	( <sup>2</sup> )	( <sup>2</sup> )	( <sup>2</sup> )
8	Assistant regional administrator for renewal	Review and sign off	1	1	1
9	Regional administrator	Review	1	1	1
10	Central office:				
	Renewal and housing assistance:				
	RAA: Program control and statistics	Receive, log, and review for submission requirements	( <sup>2</sup> )	( <sup>2</sup> )	( <sup>2</sup> )
11	Office of Community Development (relocation)	Review for adequacy of relocation plan		20	16
12	RAA: Program control and statistics	Get additional information if needed or prepare for RHA approval and validation.	( <sup>2</sup> )	( <sup>2</sup> )	( <sup>2</sup> )
13	Administration: Fiscal services	Prevalidation of funds	3	3	2
14	Renewal and housing assistance: Assistant secretary	Final approval	4	4	4
15a	Public affairs and congressional relations	Review press release; advise appropriate elements and publish	13	13	9
15b	Renewal and housing assistance: RAA, program and statistics	Record approval and prepare memo to region	( <sup>2</sup> )	( <sup>2</sup> )	( <sup>2</sup> )
16	Regional office: Renewal assistance office, processing control and reports	Send additional letter to locality	10	10	10

<sup>1</sup> Legend: S. & P., survey and planning application; L. & G. I, pt. I, application for loan and grant; L. & G. II, pt. II, application for loan and grant.

<sup>2</sup> Varies. RAA records do not show the amount of time the application is held awaiting grant funds—only the total time and the time spent in various offices; all "hold time" is reflected in the program control office even though only 3 to 5 days processing time is actually spent there. Total elapsed time is shown in recap.

Recap: Regional office processing: S. & P., 76 days; L. & G. I, 91 days; L. & G. II, 47 days. Central office processing: S. & P., 192 days; L. & G. I, 49 days; L. & G. II, 40 days. HUD processing time per application: 495 days. Time in locality (after S. & P. approval): 305 days. Urban renewal project processing time from receipt in regional office to approval of pt. II, 800 days.

Source: Study by Model Cities Systems Improvement Team, HUD, June 23, 1967.



## CHAPTER 7

# Model Cities

The vision of the good city is an enduring one. There are those who believe, with the first witness before this Commission, that:

The biggest single thing that could happen in the United States would be to produce one good city. If you produced one good city in America, the chain reaction, the generating force that it would have on this country would be incredible.<sup>1</sup>

As the witness also said:

The most shocking fact in America to me is that with all the programs that have been mounted to deal with the American city, not one single city in the United States has made a comprehensive plan to make itself into what I think it ought to be and calculated the cost of executing it.<sup>2</sup>

Perhaps the major aim of the model cities program was to meet this need, by demonstrating what can be done not in a single city but in a number of cities. The program had its origins not only with those who had a vision or ideal of what the good city should be, but also with farsighted legislators, those with a passionate interest in rebuilding urban America, and those who had worked with the day-by-day programs in the cities and in the slums. There are reasons why its origins went beyond the vision of the good city.<sup>3</sup>

As those who work with the cities know, programs such as urban renewal stress "clearance" and ultimately provide a decent physical environment, but in the past have built very little housing. On the other hand, the public housing program built units but provided very little in the way of a suitable environment. The piecemeal approach to the solution of urban problems has failed to take into account the close interrelationship of housing and human needs and of structures and environment. Access to decent housing depends on jobs and income. Citizens cannot rent or buy a decent house without them. But to be decent, a house cannot be surrounded by freeways or isolated from essential social services.

While physical structures and job opportunities are important, more is needed—schools,

garbage collection, street lights, open space, playing fields, health clinics, neighborhood organizations, police protection, and cultural opportunities. To bring together all of these programs and to focus and concentrate them within specific neighborhoods was a prime goal of the model cities idea.

The bill was before Congress near the end of 1966. The 89th Congress had passed a monumental volume of social legislation which provided grants and loans to the States and localities on a program-by-program basis for jobs, job training, education, health, housing and public facilities. Very little coordination was provided, or indeed possible, either at the national or local level. The managers of the model cities bill, primarily Senator Edmund S. Muskie of Maine, were concerned to bring some order out of the program-by-program approach and to provide the means of planning for the overall needs of communities.

The purposes are clearly stated in the act itself, which affirms that improving the quality of urban life is the most critical domestic problem facing the United States. In its words:

The persistence of widespread urban slums and blight, the concentration of persons of low income in older urban areas, and the unmet needs for additional housing and community facilities and services arising from rapid expansion of our urban population have resulted in a marked deterioration in the quality of the environment and the lives of large numbers of our people while the Nation as a whole prospers.

The act also recognizes that cities do not have the resources to meet the critical problems they face. Funds in addition to those provided under the various programs are essential if cities are to meet their needs. The act, therefore, provided additional funds for those cities that would attempt to state their needs, calculate the costs, and embark on imaginative, innovative programs. If these efforts produced positive results in demonstration areas, they would provide the thrust and the momentum to apply the successful programs elsewhere.

Under the act, funds would go to cities of all sizes. It was not merely a "big city" program, it was an "all city" program. Its purpose was to enable cities of all sizes to plan, develop, and

<sup>1</sup> Testimony of James W. Rouse, *Hearings Before the National Commission on Urban Problems*, Vol. 1, p. 9.

<sup>2</sup> *Ibid.*

<sup>3</sup> The model city concept, while applicable in the long run to an entire city or urban area, is being confined initially to smaller "problem areas" of the selected cities.

carry out locally prepared and scheduled comprehensive city demonstration programs containing new and imaginative proposals, in the language of the act—

To rebuild or revitalize large slum and blighted areas;

To expand housing, job, and income opportunities;

To reduce dependence on welfare payments;

To improve educational facilities and programs;

To combat disease and ill health;

To reduce the incidence of crime and delinquency;

To enhance recreational and cultural opportunities;

To establish better access between homes and jobs;

To improve living conditions for the people who live in such areas;

To accomplish these objectives through the most effective and economical concentration and coordination of Federal, State, and local public and private efforts to improve the quality of urban life.

To become eligible, cities would submit data on their needs and make proposals to meet the needs in local demonstration or model cities programs. The requirements for eligibility not only stress the planning aspects but provide that programs should be of "sufficient magnitude to make a substantial impact on the physical and social problems" named in the declaration of purpose. The projects must also be initiated within a reasonably short period of time.

The incentive Congress gave to get the program moving was money. The act provides for 80 percent of the cost of planning and developing the comprehensive city demonstration programs. In addition it provides grants to pay for up to 80 percent of the cost of administering approved comprehensive programs. But the major funds are those which the act provides for the programs themselves. The Secretary of the Department of Housing and Urban Development is authorized, in the words of the act, to make grants to the city demonstration agencies not to exceed 80 percent of the aggregate amount of non-Federal contributions otherwise required to be made to all projects or activities assisted by Federal grant-in-aid programs which are carried out in connection with such demonstration programs.

What this means is that the Federal Government agrees to pay an additional amount not to exceed 80 percent of the non-Federal contributions in existing housing, health, jobs, education, and other programs which are integrated

under the comprehensive plan of the model cities program. This is the inducement to bring order out of chaos and to bring actual working arrangements between and among administrators at the local level who in the past planned their programs and sought funds without regard to what others were doing.

Many localities do not urgently want to do some of the things that most need doing. Cities that want to do these things, or which could be persuaded to do them, often cannot afford to act. The supplemental 80-percent grants of the model cities program are intended to provide incentives and encouragement for these high priority matters which are not now being carried out, or are not being carried out with enough intensity. The grants are similar in purpose, although differing in formula, to the Federal block grants urged elsewhere in this report. They are not meant to provide local money to match still other Federal grants (although this may be possible in some instances), but rather to stimulate actions for which there is no Federal aid.

The working out of the grants, and of the entire model cities program, still in the planning stage at the time this report was prepared, must await later judgment on the basis of how the plans are actually carried out.

The Department of Housing and Urban Development approved 63 planning grants in fiscal year 1968 and scheduled 70 more for fiscal year 1969. The Department requested \$1 billion for fiscal year 1969, and was granted \$625 million, to be equally divided between grants for the cities and an urban renewal add-on for urban renewal activities specifically identified and scheduled to be carried out under approved model cities programs.

One administrative requirement for the program which appeared to have legislative endorsement required that it be carried out through the office of the mayor or responsible city official.

While placing the authority in central hands, however, the program also requires localities to integrate their planning process to the fullest possible extent with the residents of the affected neighborhoods.

The cities are asked to provide both a five-year estimate of their needs and projected costs on a year-by-year action program. The hope is that funds will not be spent on a series of individual, scattered projects but that a system of expenditures will evolve that is designed to achieve the comprehensive goals concerning jobs, housing, education, welfare, etc., specified in the act.



The program is in its early stages, but a few crucial issues that may determine its ultimate success or failure are already discernible.

The concept seems to be correct. Under the traditional program-by-program approach, a variety of local agencies administer their own narrow programs with little or no coordination with the needs of other programs and the city as a whole. They are funded by a variety of Federal agencies whose programs, both at the Federal and local levels, are largely independent of each other, and whose funds are often funneled through a State administrative apparatus that adds another layer of autonomous operation.

Instead, under model cities, a comprehensive program is designed at the local level so that the funds and activities can be concentrated to meet the total needs of a community. This is both a desirable and absolutely necessary goal.

If this commendable purpose is to be carried out, however, at least two major pitfalls must be avoided. The first is the danger that the program will become bogged down in the "planning process" and planning terminology at the expense of action. One hears from model city experts and reads in its literature an abundance of language taken from space jargon which might best be termed modern barbarisms. One hears about "target" neighborhoods, "restructuring the delivery systems," and "launching the planning process." One hears very little about how many houses will be built, how often the garbage will be collected, and what kind of schools, health clinics, and job training classes are planned or when they will be open for use.

This may be due in part to the fact that the program is still in its early stages. But one senses that to date there is more interest from the local administrative structure than from the people or the concerned program-oriented groups in the community. There is a danger that the program will be overweighted by the creation of a multitude of new committees or institutions to coordinate, plan, and talk with one another and that needless new layers will be added rather than that existing institutions will be made more efficient.

The second major problem, and one which affects the first, is that of funding. It is vital to fund the amounts authorized for at least two reasons. Unless there are enough funds to carry out programs, model cities will become nothing more than a talking and planning program. It is the promise of funds and the receipt of funds which provide the incentives for cities to focus their efforts in a concentrated area, to develop innovative programs and to foster the active involvement of neighborhood residents.

Funds are vital to success. Without them, no amount of planning will build houses, collect garbage, train the unemployed, or educate children. The promise of the program can result in performance by the cities only if the funds are forthcoming. From the perspective of late 1968, one wonders whether the funds appropriated by Congress for the program this year, which represent almost a 40 percent cut in the amounts requested, are sufficient to make the promise of model cities possible.

## CHAPTER 8

# The Housing Act of 1968

The Housing Act of 1968 is a landmark in housing legislation. It is equalled or excelled in significance only by the original 1949 Act itself. The President has called it a "Magna Carta to liberate our cities."

Among its most important features are those which:

Reaffirm the goal of the 1949 Act of "a decent home and a suitable living environment for every American family."

Emphasize, to a degree heretofore lacking and on an unprecedented scale, programs to build both sales and rental housing for low-income families.

Require the development of a program to eliminate within a decade all substandard housing and the realization of the 1949 Housing Act goal. The detailed plan is to be submitted to Congress in January, 1969. Yearly reports will follow, indicating how the actual results compare with the objectives, and recommending additional steps needed to meet the goal.

Improve public housing by additional assistance to large families, provide for greater ease in the purchase of units by the occupants, improve tenant services, upgrade management personnel, restrict the construction of high rise projects, and allow greater freedom in design.

Shift the emphasis in future urban renewal projects from high-income luxury housing to low- and moderate-income housing.

Provide improved programs for rehabilitation loans and grants, for interim assistance grants in blighted areas, for relocation payments, and for housing code administration and enforcement.

Make available to nonprofit, limited dividend, and cooperative housing groups grants and loans for seed money and for housing services, the lack of which has heretofore been a major limiting factor in moderate income programs.

Phase out existing moderate-income programs under 221(d)(3) while providing generous interim authority as the new in-

terest rate subsidy programs come into effect.

Place FNMA's secondary market functions in a new privately owned corporation while retaining the special assistance functions in HUD under a new Government National Mortgage Association (GNMA).

In addition, the law provides for mortgage insurance in high-risk areas, government guarantees for financing new town developments provided they have a proper balance of low- and moderate-income housing; a billion dollar increase in model city authority, the inclusion of a housing element in the 701 urban planning programs, the provision for a major experimental housing program in an attempt to reduce costs, the establishment of a National Homeowners Foundation to aid sponsors of low- and moderate-income housing with grants and loans, and the establishment of a national housing partnership in an effort to attract more private financial resources into the low- and moderate-income field.

While Congress has now passed this far-reaching legislation, through which is provided the authority to meet the Nation's most urgent housing needs, the goals will remain unfulfilled unless Congress also provides the funds. The appropriations committees, especially that in the House, can and do nullify programs passed by the legislative committees and Congress as a whole. Recent action on the request for the 1969 fiscal year housing appropriations does not augur well for the future. All funds for open housing enforcement were denied and those for model cities, rent supplements, research and development, urban renewal, and others were drastically slashed.

In the supplemental appropriation bill in which funds for the landmark act of 1968 were requested, \$2 million was finally provided for fair housing enforcement. The amounts requested and the amounts received for other key programs in either the regular or supplemental bills may be found in table 1 on page 175.

Unless the new programs are funded more adequately the new act cannot achieve its goals. In one of its major recommendations, the Com-



mission urges that money for key programs be made available upon authorization in order to avoid the traditional appropriation committee roadblock to the fulfillment of these programs.

#### ONE PERCENT INTEREST RATES

Of the new programs, the most important are those which provide assistance through the device of subsidized interest rates to low-income families wishing to own or rent housing. Potentially, about 500,000 low-income families could buy new housing and another 700,000 units would be provided for low- and moderate-income renters in 3 years.

The act would subsidize interest rates for families meeting income qualifications down to a level of 1 percent. Similar subsidies would be available for rental units for low-income families.

The act provides for an upper mortgage limit of \$15,000, but with additional allowances for high-cost areas (up to \$17,500) and for large families (generally \$17,500 but up to \$20,000 in high-cost areas).

To qualify for the home ownership provisions, family income must not be in excess of 135 percent of the maximum income admission limits for public housing in the area. In average cost areas these admission limits are about \$4,000 for a family of five. Up to 20 percent of the contract funds can be used to assist families with incomes above these amounts but not in excess of 90 percent of the income limits for occupancy in the below-market-rate interest program under section 221(d)(3). Generally speaking, the income limits for this housing are set at or below the median income for the area. In addition, a deduction of \$300 for each minor person in the family is allowed in determining the family income and any earnings of minor children are not counted as a part of family income.

The program, as written, could provide an abundance of housing for the income groups which fall between the upper level of those who qualify for public housing (about \$4,000), and those who can afford to buy or rent standard housing on the private market (about \$6,500). This group has been largely bypassed in major housing programs.

It must be noted, however, that except where it can be combined with rent supplements, the interest rate program cannot provide housing for many families with incomes below \$4,000, although their need is the greatest of all. Their need will have to be met through other means, primarily through public housing and rent supplements, if it is to be met at all.

This point is illustrated by tables 2 and 3. In table 2 the estimated monthly rental payments are given for the section 236 interest pay-

ment program for a 40-year mortgage at 6¾ percent interest plus the one-half percent FHA mortgage insurance premium.

The table indicates that a tenant with an income of \$3,500 could pay a maximum of \$72.92 per month at 25 percent of his income. But for a \$10,000 unit in a nonprofit project this would be almost \$4 short of the minimum of \$76.41 needed to rent that unit. If the unit cost over \$10,000, and very few units can be built for that amount, the gap would widen appreciably. Thus a minimum income of about \$4,000 would be needed to rent a \$10,000 unit even if the tenant pays only the minimum charge.

For the homeownership program under section 235, conditions do not appear to be quite as stringent. This is somewhat misleading because a homeowner has additional costs, beyond his mortgage payment, of about \$50 a month which the renter does not pay directly. As is shown in table 3, a family with a \$3,500 income could pay 20 percent of its income and support a \$14,000 mortgage under the program without having to make additional mortgage payments. A \$15,000 unit would require at least \$2.25 a month above 20 percent of the family income and assistance payments. Both the rental and sales programs cover few families with incomes below \$4,000.

In the past, Congress has not always provided adequate funds for low-income housing programs, or has restricted the use of such funds in ways which have diminished their effectiveness. FHA and HUD have been heavily criticized for delays and administrative difficulties in publicly assisted programs. Private nonprofit and other groups have not been highly successful as sponsors. Adequate funds have not been attracted from private sources into the assisted market. Builders have been reluctant to take part. State and local governments have dragged their feet and at times have been openly hostile to housing the poor. Because of this it would be premature to predict the program's future.

Yet it has greater possibilities than any program previously conceived. It shows an awareness of the problems and pitfalls of previous provisions. It indicates that the housing experts have learned many lessons from the past programs and have profited from them. But only actual experience can measure the program's performance against its potential.

#### PUBLIC HOUSING PROVISIONS

Except in few cases, families with incomes below \$4,000 cannot take part in the new interest rate subsidy program. For families at or below the poverty level, public housing still is the major effective program.

Congress recognized this fact in the 1968 act

TABLE 1.—HOUSING ACT OF 1968: LEGISLATIVE REQUESTS VS. FUNDS APPROPRIATED

[In millions of dollars]

Program	Request	Appropriated
Tenant services under public housing.....	\$15	0
1-percent interest rate housing programs (limitations on contract authority):		
Sales housing.....	75	\$25.0
Rental housing.....	75	25.0
Model cities:		
Supplementary grants.....	500	312.5
Urban renewal add-on.....	500	312.5
Urban renewal (fiscal year 1970) (includes fiscal year 1970 model cities funds).....	1,450	750.0
Rent supplements.....	65	30.0
Low- and moderate-income sponsor fund (seed money for 221(d)(3)).....	5	.5

TABLE 2.—ESTIMATED MONTHLY RENTAL PAYMENTS BY LOW- AND MODERATE-INCOME FAMILIES <sup>1</sup> UNDER SEC. 236 BY VALUE-COST OF DWELLING UNIT, TYPE OF PROJECT OWNER, AND TENANT'S ANNUAL INCOME, BASED ON A 6¾ PERCENT, 40-YEAR MORTGAGE WITH ½ PERCENT FHA MORTGAGE INSURANCE PREMIUM

Tenant's annual income	25 percent of monthly income	Value-cost of dwelling unit							
		Nonprofit project owner				Limited dividend project owner			
		\$10,000	\$12,000	\$14,000	\$15,000	\$10,000	\$12,000	\$14,000	\$15,000
\$3,500.....	\$72.92	\$76.41	\$91.69	\$106.97	\$114.62	\$77.64	\$93.17	\$108.70	\$116.46
\$4,000.....	83.33	83.33	91.69	106.97	114.62	83.33	93.17	108.70	116.46
\$4,500.....	93.75	93.75	93.75	106.97	114.62	93.75	93.75	108.70	116.46
\$5,000.....	104.17	104.17	104.17	106.97	114.62	104.17	104.17	108.70	116.46
\$5,500.....	114.58	114.58	114.58	114.58	114.62	114.58	114.58	114.58	116.46
\$6,000.....	125.00	120.80	125.00	125.00	125.00	115.59	125.00	125.00	125.00
\$6,500.....	135.42	120.80	135.42	135.42	135.42	115.59	135.42	135.42	135.42
\$7,000.....	145.83	120.80	144.96	145.83	145.83	115.59	138.71	145.83	145.83
\$7,500.....	156.25	120.80	144.96	156.25	156.25	115.59	138.71	156.25	156.25
\$8,000.....	166.67	120.80	144.96	166.67	166.67	115.59	138.71	161.83	166.67
\$8,500.....	177.08	120.80	144.96	169.12	177.08	115.59	138.71	161.83	173.39
\$9,000.....	187.50	120.80	144.96	169.12	181.20	115.59	138.71	161.83	173.39
Basic rental charge <sup>2</sup> .....		76.41	91.69	106.97	114.62	77.64	93.17	108.70	116.46
Fair market rental charge <sup>3</sup> .....		120.80	144.96	169.12	181.20	115.59	138.71	161.83	173.39

<sup>1</sup> The monthly rental is the basic rental charge or a greater amount which does not exceed either 25 percent of the tenant's income or the fair market rental charge.

<sup>2</sup> Basic rental charge based on 1 percent, 40-year mortgage with a level annuity amortization plan. Operating expenses are assumed to be 40 percent of gross rents before allowance for vacancy on the basis of a sec. 207-type project with a 6½ percent mortgage and a 1½ percent initial curtail. A 7 percent vacancy allowance is also assumed.

<sup>3</sup> Fair market rental charge based on a 6¾ percent, 40-year mortgage with a level annuity amortization plan and the same operating expenses as in the basic rental charge. A 7 percent vacancy allowance is also assumed.

Source: Division of Research and Statistics, Actuarial and Financial Section, HUD.

TABLE 3.—ESTIMATED ASSISTANCE PAYMENTS FOR LOW- AND MODERATE-INCOME FAMILIES UNDER SEC. 236 BY VALUE-COST OF PROPERTY AND OWNER'S ANNUAL INCOME BASED ON A 6¾ PERCENT 40-YEAR MORTGAGE WITH ½ PERCENT FHA MORTGAGE INSURANCE PREMIUM

[Figures in brackets indicate the amounts paid by the owner in excess of 20 percent of owner's monthly family income and assistance payments]

Family's annual income	20 percent of monthly income	Value-cost of property (amount of mortgage)					
		\$10,000	\$12,000	\$14,000	\$15,000	\$16,000	\$17,500
\$3,500.....	\$58.33	\$19.71	\$36.36	\$52.79	\$58.89	\$62.82	\$68.70
\$4,000.....	66.67	11.37	28.02	44.45	(2.25) 52.80	(6.70) 61.18	(14.20) 68.70
\$4,500.....	75.00	3.04	19.69	36.12	44.47	52.85	66.23
\$5,000.....	83.33		11.36	27.79	36.14	44.52	57.90
\$5,500.....	91.67		3.02	19.45	27.80	36.18	49.56
\$6,000.....	100.00			11.12	19.47	27.85	41.23
\$6,500.....	108.33			2.79	11.14	19.52	32.90
\$7,000.....	116.67				2.80	11.18	24.56
\$7,500.....	125.00					2.85	16.23
\$8,000.....	133.33						7.90
\$8,500.....	141.67						
Value-cost of property (amount of mortgage)							
		\$10,000	\$12,000	\$14,000	\$15,000	\$16,000	\$17,500
Monthly payment due mortgagee <sup>1</sup> .....		\$78.04	\$94.69	\$111.12	\$119.47	\$127.85	\$141.23
Monthly payment to principal, interest, and premium for a 6¾ percent, 40-year mortgage.....		64.56	77.48	90.39	96.84	103.30	112.98
Monthly payment to principal and interest for a 1 percent, 40-year mortgage.....		25.30	30.36	35.42	37.95	40.48	44.28
Maximum assistance.....		39.26	47.12	54.97	58.89	62.82	68.70

<sup>1</sup> Monthly payment due mortgagee includes principal, interest, and FHA mortgage insurance premium on a 6¾ percent, 40-year mortgage and also real estate taxes and hazard insurance which are estimates based on new and existing homes combined as shown in tables 37a and 37b from FHA's annual report data for 1966.

Source: Division of Research and Statistics, Actuarial and Financial Section, HUD.



and provided for both funds and improvements in the program to help make it more effective.

In its public hearings and private sessions, and in representations made by its chairman and members to the Congress, this Commission criticized the existing public housing program in a number of areas. One important criticism was that the program helped most those needy families whose incomes were near the upper or maximum income eligibility limits. The \$3,500 to \$4,000 family was helped while the poorest of the poor families often could not qualify.

Congress took a large step to rectify this in the 1968 act by providing additional subsidies for poor families similar to those provided under the program for the elderly. This is a major advance and should prove particularly helpful to large, poor families.

The Commission has argued that public housing is much more than a real-estate program. It is a human program. Some of the obvious failures in public housing projects were due to the lack of services for tenants whose need for help in a wide variety of ways was the result of their poverty.

Congress authorized \$15 million in fiscal 1969 and \$30 million in 1970 to upgrade management services in public housing. Counseling services on household management, housekeeping, family budgeting, and childcare could be provided. Tenants could be helped to locate and take advantage of job training, education, welfare and health services. But the House Appropriations Committee succeeded in completely cutting out funding for these programs.

These intended changes that were not funded remain important. Many public housing occupants are among the disorganized poor. They have larger problems and fewer resources to cope with them than other groups. Both the human and institutional success of the program depend on providing more than housing. Congress and the administration have now moved to remedy these defects. But the Appropriations Committee has refused to vote any funds.

Under another provision, highrise, multi-family public housing, except for the elderly, is now not to be approved for families with children unless there is no practical alternative. Examination of the Pruitt-Igoe project in St. Louis and Robert Taylor Homes in Chicago convinced the members of this Commission of the desirability of such a step. Where highrise structures remain, innovative design and additional services are urgently needed if the poor are to be housed successfully.

The act also extends the opportunity for a public housing tenant to purchase his unit in order to prevent his expulsion as his income rises. Now he may purchase any suitable unit,

instead of only a detached or semidetached unit as provided under previous law. This step is clearly consistent with the Commission's views and the testimony it heard.

The act provides much greater opportunity for local housing authorities to purchase existing standard structures for sale to low-income tenants. This provision is not subject to the "workable program" requirements which in the past have made it possible for less progressive communities to prevent housing of the poor under public programs in their jurisdictions.

The act also removes some of the restrictions on design which in the past have greatly limited the desirability of public housing.

Other provisions of the law extend the rent supplement program, which is closely allied to public housing, and offer greater opportunity for low-income tenants to provide labor or services in kind to build up an equity in their homes. These provisions for "sweat equity" are extended under the 221(d)(2) program, which also serves low-income housing needs.

Most important, the law provides an additional \$100 million in authority for public housing upon enactment and \$150 million more on July 1, 1969, and July 1, 1970. This is an addition to the \$45 million requested in the fiscal year 1969 budget. These funds are available without further authorization for annual contributions contracts to build additional public housing units. Thus, while the new interest subsidy program gets underway and in order to house those low-income groups who cannot qualify for it, public housing is both extended and greatly improved.

#### URBAN RENEWAL—SHIFT IN EMPHASIS

The act makes three major changes in the thrust of the urban renewal program:

##### (1) *Greater speed*

The act attempts to meet the problem of unconscionable delays in urban renewal projects by providing for planning and execution on the basis of annual increments.

The Commission's studies indicate that only one-third of urban renewal projects are completed in 6 years or less and that over a third took more than 9 years to complete. Many functions which should be funded or completed early in the process must wait until much of the project is completed before they can move forward.

In addition to funding by annual increments, the act authorizes the neighborhood development program to cover activities in several contiguous or noncontiguous urban renewal areas, and loans and grants may be based on those funds needed to carry out these planned activities during the 12-month period.

This change will help to meet one of the program's greatest administrative defects—the myriad of problems which arise from the delay involved in acquiring and assembling land and in planning and building both public facilities and private structures.

### *(2) Low and moderate-income families*

In the future, the program will emphasize housing for low- and moderate-income families. The act provides that in urban renewal projects for predominantly residential uses, a majority of the total housing units provided must be standard housing for low- and moderate-income families. Of these, at least 20 percent must be for low-income families unless the Secretary of HUD certifies that such housing is already available in the community.

Other sections make special provision to permit urban renewal land to be disposed of for lease and sale to low- and moderate-income families. These provisions apply especially to housing under the new low-interest-rate sales and rental programs.

As our studies have shown, housing on urban renewal sites until recently has been almost exclusively for upper middle and upper income groups. These new provisions will help meet that problem in the future.

### *(3) More effective programs*

New or revised provisions of the act greatly improve the programs to meet the special problems of urban renewal areas. Among the new provisions are improved programs for rehabilitation grants and loans, interim assistance to blighted areas, relocation payments, and additional payments to owner occupants to purchase replacement dwellings when they are uprooted by housing assistance programs.

The maximum rehabilitation grants for low-income homeowners are raised from \$1,500 to \$3,000 under old section 115. This program is extended to areas outside urban renewal projects, a provision that should help prevent the rapid deterioration of owner-occupied dwellings in declining areas awaiting urban renewal or concentrated code enforcement programs. The conditions applied to the extension, however, unduly restrict the potential of the program.

The section 312 loan program is also improved and extended, paralleling the changes under the section 115 grant program. The authorization of funds is increased from \$100 million to \$150 million in each fiscal year.

These improved provisions should not only help stop blight and deterioration, but should make for more effective housing code enforcement programs by providing low-income families with the funds to make repairs.

In addition, the act provides for interim gen-

eral assistance in slum areas. This Commission has seen in such areas as the Shaw area in Washington, D.C., the rapid deterioration of housing awaiting concentrated code enforcement or urban renewal programs. Amounts up to \$15 million a year in grants are authorized from regular urban renewal funds to alleviate harmful conditions in such areas where some immediate action is needed before urban renewal or code enforcement is begun. In the past, such assistance has been opposed by urban renewal officials partly on the grounds that the funds would come from their program. This reform is long overdue.

Furthermore, to help meet one of the most pressing problems under urban renewal, the relocation program has been improved. The act increases maximum relocation payments from \$500 over a 5-month period, to an amount not in excess of \$500 per year over a 2-year period. The purpose is to provide an amount which, when added to the family's income, will provide standard replacement housing. The emphasis is shifted from a one-shot relocation payment to providing assistance for standard housing.

Provision is also made for an additional payment not in excess of \$5,000 to an owner-occupant of an assisted project to enable him to purchase a replacement dwelling. This is an urgently needed reform. In many urban areas, homeowners do not receive an amount either comparable to their equity or sufficient to purchase new housing. The market value of the old dwelling is often far less than the amounts paid for it. In addition, Government purchasers have in the past deliberately driven harsh bargains with poor owners in renewal areas, a practice which has been ordered ended. In view of these conditions, this provision of the act is a most welcome one.

The effect of these new provisions is a long step toward transforming urban renewal into a program of help to the people who live in blighted or slum areas, thus restoring the thrust which many of its original sponsors intended when it was enacted.

### WORKABLE PROGRAM

The act does not amend or modify the workable program provisions of the National Housing Act. These are provisions which require localities to adopt planning functions, building codes, housing codes, and zoning ordinances, and to meet certain administrative requirements with regard to them, as a condition of qualifying for certain programs. Among these are urban renewal, public housing, and the moderate-income 221(d)(3) program.

While the workable program requirements themselves are important and urgently needed,



they are too often tied to programs that some cities do not want instead of to programs which cities both need and urgently seek. As a consequence, some communities that wish to avoid housing the poor deliberately fail to meet the workable program requirements. This is especially true of some suburban communities in major metropolitan areas. Most large central cities, however, cannot exercise this luxury, for the poor are already with them.

One way to meet this problem is to tie the workable program requirements to programs communities want, rather than to programs they do not want. If grants for public works, public facilities, and highways were conditioned on the implementation of a workable program, this would be an effective means of providing desirable code, zoning, and planning programs. Tying them to public housing or to moderate-income housing programs means only that some communities will deliberately fail to enact a workable program in order to shut out public housing and the poor.

The new act, unfortunately, does not meet this issue head on. It does, however, make no requirement for a workable program in order to qualify for the low-interest rate program. It specifically exempts the new section 208 program, which would allow the sale of existing private low-rent housing units to tenants after purchase by local housing authorities, from the provisions of the workable program.

We find no fault with this. We believe, however, that the issue should be faced more directly and that the much needed and largely desirable workable program requirements could be tied to grants and loans from the Federal Government which communities desire.

#### RED LINING

In April 1967, this Commission held hearings in Boston which highlighted the practices of the Nation's banking and mortgage institutions in denying loans to ghetto residents and the failure of the FHIA to insure mortgages in declining and slum areas. In effect, these private and Federal institutions refused to loan or insure in entire areas of the major central cities. The practice meant that once blight began it would snowball, for no institutions would help even those who wished to help themselves. In this matter, the FHIA was not merely neutral with respect to the incidence of decay and blight; its policies actually aided, abetted, and encouraged it. The practice was termed "red lining" from the actual or mythical red line which banking, mortgage, and insuring institutions drew on maps around these areas.

The Commission pointed out, however, that the FHIA did have the authority to insure under

section 203(1) of the Housing Act. This section made it possible for the FHA to insure in areas where there had been riots or where there was a threat of a riot. Following the experiences of 1966, it was not necessary for the FHA to stretch the meaning of the section to insure in the slums of almost any city of the country.

Upon the prompting of this Commission and as a result of further unrest in 1967, the FHA finally began to act.

Under the 1968 act, this provision was repealed. In its place a new section 223 was enacted which permits the insurance of mortgages and the financing of the repair, rehabilitation, or purchase of property in "an older, declining urban area." The property must be an acceptable risk, but the previous higher standards of conventional financing under which the FHA acted do not apply.

While this provision has been hailed as an advance, a warning should be made. The language concerning older "declining" areas may be interpreted to limit such insurance to the "gray" areas and to deny it to the existing blighted and decayed neighborhoods. Instead of "extending" the ability to insure or "relaxing" the previously harsh requirements, the new law could actually be less desirable than section 203, which was repealed.

We raise this issue as a result of past experience. It was language almost precisely like that enacted which was interpreted to limit funds for housing code enforcement to the "gray" areas and to deny such funds (grants and loans) to communities and individuals in blighted areas.

#### NEW TOWNS

New towns are an interesting and desirable phenomenon. In some cases, they have initiated a variety of new and exciting design and land use concepts. In other cases, they are little more than conventional suburban or exurban housing developments. In most cases, new towns have almost no relevance to the overriding problem of housing low- and moderate-income families, for they provide no low- and moderate-income housing.

Their major economic problem has been in financing the land, the site developments, and the original housing until such time as they provide a cash flow large enough to sustain the tremendous initial capital investment.

The 1968 Housing Act authorizes the Secretary of HUD to guarantee the bonds, debentures, notes, and other obligations issued by new community developers up to a total of \$250 million, and up to \$50 million for any one community. However, the act requires that the Secretary determine that the plan provide for a proper balance of housing for families of low

and moderate income as a condition of eligibility.

Without such a requirement, effectively enforced, there is considerable doubt as to the public interest to be served which would justify the guarantee or subsidy. Certainly, the propriety of such a program would be very low on the general scale of values. It would be ironic, indeed, if the Government were to guarantee the obligation of new towns where there was no housing for low-income Americans, while refusing to insure loans for housing in the slum and blighted areas of our central cities.

#### EXPERIMENTAL HOUSING PROGRAM

Section 108 of the act, the Proxmire amendment, directs HUD to institute a program of experimental housing to determine whether housing costs can be cut through new practices, products, or efficiencies from the use of mass production techniques.

The program is identical to that recommended by this Commission, and was a result of its recommendations and the testimony of its chairman to the Senate Banking and Currency Committee. Essentially, it would direct the Secretary to approve up to five plans, each using new housing producing technologies to produce at least 1,000 dwelling units a year over a 5-year period, or 25,000 units in all.

The experiment should provide sufficient data to ascertain whether economies can be made. The Secretary should provide for the use of any successful techniques in the numerous housing assistance programs.

#### HOMEOWNERS FOUNDATION—HOUSING PARTNERSHIPS

Two separate and distinct provisions of the act which have somewhat similar purposes are the creation of a National Homeownership Foundation and provisions for a national housing partnership.

The purpose of the former is to encourage private and public organizations to provide homeownership opportunities for low-income families in both urban and rural areas. The act authorizes an appropriation of \$10 million to help achieve this purpose through a loan and grant program to assist both public and private organizations sponsoring or carrying out housing programs for lower income families. The funds would defray organizational and administrative expenses and pay for certain pre-construction costs, and for counseling and other services to lower income families. It is authorized to receive donations and grants from both public and private organizations.

The national housing partnership has a different approach. The act provides for the estab-

lishment of a corporation which can issue shares of stock and whose 15-member board is to have three members appointed by the President of the United States and the remaining 12 to be elected by the stockholders.

Its basic purpose is to attract funds from private sources to be used to build housing for low- and moderate-income families in urban areas. The corporation can form a limited partnership in which it is the general partner and the stockholders are limited partners. Through this device it is hoped that private corporations, by operating under the existing tax laws and by taking advantage of the subsidies available under existing housing programs, may find it possible to provide housing in the slums without additional subsidies.

#### FNMA AND GNMA

Finally, the act partitions the existing FNMA into two separate and distinct corporations, FNMA (Fannie Mae) and GNMA (Ginny Mae).

The new FNMA will be a government sponsored "private" corporation. It will keep the assets and liabilities of the present association, which are involved in the secondary marketing operations it will continue to operate.

The new GNMA will hold the assets and liabilities incurred under the existing special assistance functions of the act.

The provisions should make it possible for the new FNMA to attract more funds from the private savings pool and to provide for more attractive investment instruments. At the same time, certain disadvantages pertaining to Federal accounting procedures, which limited government operations in the past, would be overcome by the establishment of a private corporation.

Meanwhile, the functions under the various assistance programs would remain with the government under GNMA, which would be retained in the Department of Housing and Urban Development.

Finally in order to provide for a greater degree of liquidity in the mortgage investment market, GNMA, under section 804 can issue securities backed by mortgages which will be more attractive to the savings industry than the myriads of individual mortgages which would otherwise have to be held.

#### OTHER PROVISIONS

The act contains numerous other provisions affecting 701 planning grants, the functions of savings and loan institutions, urban mass transportation, rural housing, the provision of second or seasonal summer homes, flood insurance, interstate land sales, model city funds, open space, and water and sewer grants.



## SECTION 9

# Recommendations

The following recommendations of the Commission are aimed at general housing goals and policies.

### Recommendation No. 1—Housing goals

**The Commission believes that to meet America's housing needs we must build at least 2.0 to 2.25 million housing units a year. Of these, at least 500,000 units a year, exclusive of housing for the elderly, should house the poor and moderate-income families who at present costs and incomes cannot afford to rent or buy decent, safe and sanitary housing.**

We have stated many of the problems. The answers are harder to find. After the problems are described and the goals set, programs must be designed and carried out so that private industry with government cooperation can provide a decent home in a suitable living environment for every American family. Under the landmark 1968 Housing Act, we now have the authority.

The past has been characterized by inadequate programs with low priorities, with widely vacillating support from the Congress, carried out by a fractionalized industry on the sufferance of a largely indifferent or, on occasion, hostile, bureaucracy. The number of housing starts has varied by as much as 485,000 units, or by almost 25 percent of the total, from year to year. Neither public programs nor private endeavors can function in this roller coaster atmosphere. Costs become unpredictable. During the slack years workmen in the building industry look for jobs elsewhere. Training and apprentice programs falter. Producers are unable to predict the market. Time, which is money, drags on. Efficiency deteriorates. Builders and contractors lose money. This situation is intolerable. It must change. Major steps have now been taken to do that.

In his 1968 housing message, the President proposed specific housing construction goals to meet the nation's housing needs and to provide a decent home in a suitable living environment for all the American people by the end of the next decade. We commend the President for

taking the unprecedented step of setting these specific goals.

In addition to helping meet the housing needs for low-income families, such a national housing construction policy should have many other positive effects to which we address ourselves in detail in other sections of this report.

Housing costs should be reduced by a larger annual volume of construction and, more important, by the continuity of production which would bring savings to builders through the more efficient use of their labor force and through more efficient planning of future purchases, financing and marketing.

The hiring and training of a much larger number of workers from minority groups would be possible because the expansion of production would reduce the fears of the existing labor force that new workers would jeopardize their jobs.

The removal of local building code restrictive practices would be greatly eased by the increased demand for the products of the building industry.

In addition to the new units built directly for the poor, such a policy should provide for a much larger amount of traditional housing, the effect of which would also be to reduce rents and to increase the rate at which decent housing "filters down."

It would make the genuine enforcement of housing codes possible by providing an adequate amount of relocation housing for the displaced tenants of obstreperous landlords. It would remove the present excuse against determined code enforcement that such a policy merely increases overcrowding or drives the poor into the streets. In turn, the practical possibility of code enforcement would increase the supply of housing by preserving the existing stock.

The way to break the back of our housing needs is to build at least 500,000 houses a year for low- and moderate-income families (exclusive of the elderly). The bulk of these should be for those families whose incomes are below \$5,000. We estimate that such a program would

reduce the worst of our deficient housing from about 11 million units to 4.5 million. The number in the central cities would drop from 3.3 million units to about 1 million. Such a program would help especially in the poverty deficit areas. Substandard and overcrowded housing, using the most conservative estimates, would decline from about one unit in seven to about one in 20. If achieved, such a program would be to housing what stable prices, a 5 percent growth rate, and a 3 percent level of unemployment, are to the economy.

#### AIM PROGRAM AT NEEDS OF POOR

The program should be aimed primarily at the poor. Up to now they have largely been left out.

We propose that 100,000 units a year be built for the abject poor—for the family of four with an income of \$2,200 or less.

Another 100,000 units should be built for the poor—for those with incomes between \$2,200 and the poverty level of \$3,300.

A further 100,000 units should be built for the near-poor—for those with incomes between \$3,300 and \$4,500 a year.

These groups have the greatest needs. Both their needs and the principles of equality and justice can best be served by concentrating the program on them.

The remaining 200,000 units can be built for those with incomes above \$4,500 who cannot afford to buy or rent decent housing on the private market. The average unit should be varied according to family size and the place of residence. Cooperatives, which combine many of the advantages of group or collective action with the advantages of individual ownership and initiative, could serve to meet many of the needs of this general income group.

There are those who argue that if these needs are met there is no reason to set an overall annual housing construction goal. They say that the number of unassisted housing units built in any 1 year will be determined by the rate of family formation and the elasticity of demand.

This is partly true. But the lessons of the years since the 1930's show how dependent housing is upon the fiscal, monetary, and housing policies of the Government which in turn influence the decisions of private enterprise. In addition, a large volume of housing is needed if housing codes are to be enforced and to provide a large amount of decent filter-down housing.

The primary effort must be aimed at housing the poor. But we should also establish a yearly housing construction goal. An average rate of about 2 million to 2.25 million units a year can

be reached and sustained. This is an attainable goal. It can be met without overstraining the resources of the economy.

The total amount of housing should not be left merely to the whims of family formation or to the inelasticity of demand.

The President has proposed and the Congress has authorized programs which are designed to meet the general needs we advocate here. Whether these needs can be met through those programs and the existing administrative structure and policies, without changes in State and local code, zoning, Government structures and other institutions, is a key question. Thus, the recommendations which follow here and in other parts of the report suggest not only what should be done, but how.

#### Recommendation No. 2—Annual Presidential housing message

The Commission recommends that in addition to long-range goals the President, in a separate annual housing message which would parallel the Economic Report, State of the Union, and budget messages, propose specific housing construction goals to be achieved in the following fiscal year.

We should elevate the Nation's housing needs to the same level of prominence as the President's recommendations for employment, economic growth, the legislative program, and budget receipts and expenditures. The Proxmire amendment to the 1968 Senate Housing bill, calling for an annual report, achieves this goal in part. But we would raise the level to that of one of four major annual messages.

In his message, the President and the Council of Economic Advisers, in the closest cooperation with the Department of Housing and Urban Development, should report on the housing achievements of the previous year, the housing needs which remain to be fulfilled, and the proposed program for the future. They should spell out the future program in terms of the specific housing programs to be implemented, the capital investment needed, and the monetary interest rate and general fiscal policies which should be followed in order to implement the housing policy and to achieve the housing construction goals proposed.

#### Recommendation No. 3—Relation to national economic policy

The Commission recommends that machinery be devised in the executive branch of the Government to insure that when basic economic decisions are made, their effects on housing construction and housing construction goals be clearly and deliberately con-



sidered. The Commission further recommends that the President and his Economic Advisers, the Federal Reserve Board, the Treasury Department, and other departments and major agencies of the Government, be required to state what effect any major change in economic policy (e.g., interest rate changes, tax reductions or increases, balance-of-payment proposals) would have on the successful building of the number of housing units set by the President in his annual housing construction goals message.

The President's specific housing goals and policies, within the framework of the long term construction goals, should vary from year to year depending upon the anticipated level of economic activity and the expansionary or restrictive effects the yearly housing policy might have on the Nation's economic policy.

While such an annual housing construction policy might need to be revised upward or downward during any particular year depending upon economic conditions, this should be done openly and not haphazardly or indirectly.

Major economic policies which affect housing will also need to be revised from time to time. In the past, however, major changes have been made without adequate consideration for their effect on the construction of both private and publicly assisted housing.

The purpose of the foregoing recommendations is to move the housing construction policy to the forefront of the Nation's economic priorities. We should reverse the traditional policy—or lack of policy—which has made housing and the institutions connected with it bear alone almost the entire burden of counter-cyclical monetary policy. The country should make certain that in the future major economic decisions affecting housing will be made consciously, deliberately and in full public view.

In addition to setting housing construction goals and the national economic policies to provide conditions under which they can be carried out, a great deal more must be done. Changes in the underlying philosophies of the Housing Act of 1949 are a must, as are changes in many specific housing programs. Actions at all levels of government are needed to make the policies work.

#### **Recommendation No. 4—Reduction in the general level of interest rates**

The Commission recommends that in the interest of meeting national housing goals, the Federal Government over the next decade strive to bring about a reduction in the general level of interest rates on indebtedness for housing.

Other things being equal, a reduction in the general level of interest rates would bring about the greatest possible stimulus to housing.

The FHA new home mortgage yields have risen by almost 3 percentage points since 1949, or to a level of 7 percent. Each percentage point increases costs to the home buyer about \$10 per month on a \$15,000, 30-year mortgage. The increase in the cost of money has added more to the ultimate cost of a home than has any other single item.

Fundamentally, the various housing assistance programs provide methods by which the cost of housing to the consumer can be reduced to a level which he can afford through the payment of a subsidy. If the general interest rate level could be reduced, more people could afford housing without subsidy and the subsidy to those who need it would be reduced.

In 1950, with an interest rate only slightly above 4 percent, the housing industry built 2 million units, or almost 50 percent more than in 1967, when the interest rate was almost 7 percent.

Nothing could do more to stimulate housing, reduce the cost of subsidies, and achieve the goal of a decent home and a suitable living environment for every American family than a reduction in the general level of interest rates. We are aware of the Nation's balance-of-payments difficulties and of inflationary pressures at home. But we urge the solution of these problems by means other than a major reliance on monetary policy and rising interest rates, which have had such a negative effect on housing production for the most needy families in the country.

#### **Recommendation No. 5—Capital budget**

The Commission recommends that a Federal capital budget be established in order that the most effective and least costly method of subsidizing housing, namely Federal grants or loans, can be used and amortized over the useful life of the asset.

It should be pointed out that among the various methods of housing subsidy, direct payments from appropriated funds can be the least costly and most effective, although it is possible for this advantage to be eroded through faulty legislative policy or administration. Because the borrowing and taxing ability of the Federal Government is used to provide the revenue, the money is raised at less cost or at lower interest rates than could be obtained in any other manner, assuming a constant percentage of private or other non-Federal costs among the other subsidy methods.

Because the Federal Government has no capital budget and because, unlike private industry, capital expenditures by the Federal Government must be written off as an immediate cost in the

year expended instead of amortized over the reasonable life of the asset, successive administrations and Congresses have been reluctant to propose or pass legislation for the direct payment of subsidies for housing even though this method would be less expensive and more effective than the various indirect subsidies provided.

Federal housing programs are paid for, in part, from public funds. As vast amounts of money are involved, there is a moral obligation to subsidize in the least expensive ways.

For a variety of reasons we use other means; primarily we subsidize the interest rate. This method provides the greatest amount of housing for the smallest *annual* outlay and in many areas is found to be philosophically more acceptable. But total costs are much higher than direct payments would be.

**Recommendation No. 6—Legislative authority should be sufficient to fund housing programs 3 years into the future**

The Commission recommends that, in order to meet the national housing goals recommended by this Commission as well as those proposed by the President and adopted by the Congress, Congress authorize the Secretary of HUD to enter into contracts and obligations each year committing funds as obligations of the Federal Government to build housing and related projects for at least 3 years into the future without further authority from the Appropriations Committees.

Housing takes time to build. It requires continuity of action and money. It has suffered too many times in the past from both (1) the lack of sufficient funds to make commitments into the future large enough to meet the goals which Congress and the President have approved, and (2) wide variations in the amount of funds provided from one year to the next.

These practices make it difficult to set goals, draw specific plans, sign contracts, and fund them adequately for the future.

We need long-range programs. We need continuity in the programs. We need the authority to make pledges which will be honored. The authority provided by the legislation should be sufficient to actually fund programs for minimum periods extending at least 3 years for the future.

This is now possible under the public housing program where the authority contained in the 1968 act is sufficient for the Secretary to build public housing under the annual contributions contracts that will be honored by the Government into the future.

This has been true in the past of urban renewal. However, urban renewal is now subjected to the appropriations process, albeit 1 year into

the future. The result has been a very sizable cut in urban renewal funds for fiscal 1970.

The new 1 percent interest rate program, rent supplements, and the model cities program are subject not only to the limits authorized by the legislative committees but also to the decisions of the Appropriations Committees, which have cut the funds substantially below those authorized. Under the 1 percent program, for example, Congress authorized \$75 million each for the rental and sales programs, but appropriated only \$25 million for each category for fiscal 1969. Rent supplements were reduced from \$65 to \$30 million, model cities was cut from \$1 billion to \$625 million, and urban renewal was reduced from \$1.45 billion to \$750 million.

Funds for moderate-income housing are authorized by the Congress and then subjected only to Budget Bureau limitations. The latter has been responsible for refusing to release such funds for FNMA purchases of mortgages for purely budgetary reasons largely unrelated to housing needs. Continuity is needed here as well as for funds presently appropriated.

Because the financing of housing through direct outlays has an adverse effect on the appearance of the Federal budget, under present methods, the Government relies on the more expensive interest rate device. It does so in large part to avoid criticism. Under present methods a smaller total direct outlay for housing by the Government has a larger adverse budgetary effect than a much larger indirect outlay through an annual interest subsidy would have. Since millions of dollars are at stake, this is a very high price to pay. The executive and legislative branches of the Government should face up to these facts.

Private industry and most State and local governments operate under a capital budgeting system. There would appear to be no serious economic or budgetary reason why genuine capital expenditures for housing by the Federal Government should not be treated similarly. Millions of dollars and a decent home for millions of people are at stake. Funds authorized for moderate-income housing could then be released when needed and not limited for purposes of budgetary appearances.

**Recommendation No. 7—Federal initiative to establish priority for needs**

The Commission recommends that Congress amend the National Housing Act to change drastically the philosophy, methodology, and financial arrangements for Federal assistance in the provision of low-income housing, by adopting an active approach in dealing with localities.



At the same time that the Federal Government has been deeply involved in the minute details of housing programs, its posture with respect to the great fundamental issues has been a passive one; it has largely been content to respond to and act upon proposals initiated and submitted by local housing agencies.

This passive approach is one of the important reasons the Nation has failed to meet the problem of those in greatest need. While project approvals have been based largely on the relative merit of the applications submitted, many of the localities with the most serious problems have not been able to apply.

Cities with adequate funds can pay for the skilled talent to devise and carry out programs. Cities with desperate needs cannot afford the talent or the managerial skills to play the game. Thus, the decision as to who receives help is often made not in direct but in inverse relationship to the need: the greater the need the less ability to get the programs; the less relative need, the greater the opportunity to take part. Communities with high tax rates and a low economic base often cannot afford the matching funds or the prerequisite planning required to qualify for Federal programs. In brief, cities with staffs skilled in "grantsmanship" often get a sizable portion of the available capital grants and other assistance, while those in greatest need are left behind.

This often holds true even within communities, and may well explain why vast sums have been used to build public facilities, business structures, or luxury housing on the sites of former shums, while the people removed from those sites find their needs relatively unmet.

Within some of the large cities, the skilled, the articulate, and the relatively well to do have been able to take advantage of the programs, while the weak, the inarticulate, and unorganized have often gone without, or have borne a disproportionate share of the inconveniences and disruptions accompanying the programs.

By the basic legislative change recommended here, this process can be reversed, with Federal funds being targeted more directly upon the areas with the greatest need for low-income housing.

We believe that the adoption of such an approach, in conjunction with the new legislation now on the books, could transform the past discouraging state of affairs with regard to the lack of local initiative and the amount of decent housing being provided for low-income citizens in the United States.

The details may need to be modified, but the Congress and the President should assure, through administrative action and legislation where needed, that Federal resources are

brought to bear where the problems are the greatest, the need most urgent, and the resources and manpower most lacking.

This recommendation does not suggest that States and localities forego their authority or initiative. It does suggest that Federal initiative to carry out the intent of the Congress be added to the equation and that failure or inaction not be accepted either through the default of local authorities or their inability to act.

#### **Recommendation No. 8—Improved statistical data dealing with housing and other urban problems**

The Commission recommends to the President and Congress that Federal statistical and research activities that bear upon social, economic, and governmental conditions in urban areas be maintained, expanded and improved. More specifically, we urge: that the Congress act favorably upon pending legislation to authorize a regular mid-decade census of population and housing; that adequate financing be provided for various Federal censuses, surveys and research programs closely relevant to urban conditions and problems; that the Bureau of the Budget and various Federal statistical agencies improve and expand their programs for technical assistance to statistical offices of State and local governments; that the statistical and data collection activities of the Department of Housing and Urban Development be vastly expanded, with special reference to housing programs for the poor and near-poor and to the various conditions and facilities accompanying and surrounding low-cost housing, and that other appropriate Federal agencies act vigorously to develop needed new patterns of data classification and to close serious information gaps that now exist with regard to many aspects of public policy and effective government for urban areas.

Time after time since its formation the National Commission on Urban Problems has been frustrated in its inquiries by the lack of statistical data dealing with various aspects of housing, governmental financing, and economic phenomena in general, for urban areas, and on a city-by-city basis. There are many examples.

It is especially hobbling that in a nation with a population as mobile as that of the United States, and one which spends billions of dollars on various social programs designed to improve conditions of the country's disadvantaged people, we must rely on population figures 8 and 9 years old in the administration of these programs.

In a country where continued dynamic economic growth is one of the national goals and where State and local planning for economic development is urged, it is ironic that we have many gaps in the economic data required for the establishment of such plans within individual metropolitan areas; at a time when increased attention is being given to the economic decline of many of the Nation's central cities, personal income data for individual political subdivisions in metropolitan areas is unavailable; at a time when the Nation is increasingly concerned about the relatively slow progress being made in housing the poor, solid information about the condition and location of substandard housing is extremely hard to come by.

The Commission therefore urges the Congress and the executive branch to move together in improving the collection of information needed to make very important national decisions with regard to housing and urban development.

#### **Recommendation No. 9—Rewriting of Federal housing statutes**

The Commission finds that Federal housing programs, although having accomplished much in transforming the United States into a nation of homeowners and in rendering some assistance to meet low- and moderate-income housing needs, presently (a) fall significantly short of optimum scale and quality and (b) constitute an increasingly complex administrative and financial maze of separate programs. The Commission suggests, therefore, that the time may be at hand for a rewriting of Federal housing statutes.

Since 1937 we have had an upside-down policy. At the national level we should be setting general policies as to what needs to be built, by whom and where. We should see to it that the subsidized programs reach the poor. We should make certain that there is no racial discrimination in carrying them out. After passing the general program, providing the funds, and setting up such controls as are needed for money accountability, we should let the builders get on with the job of building. The day-to-day detailed decision should be left to the builder and the localities. Today, we do just the opposite.

Either by law or by administrative action we have placed in the hands of the national authorities the control over dozens and even hundreds of minor matters which have the effect of delaying and deterring the builders of the large quantities of housing we need. These should be local decisions.

#### **Recommendation No. 10—Simplifying programs and regulations**

The Commission recommends that to the degree possible in the rewriting of the Housing Assistance Act and FHA legislation, housing assistance programs and their subsidies be consolidated, differences in the ceilings on profits to builders be rationalized, and minimum building standards between and among programs be made uniform.

A broad range of problems with respect to the lack of uniformity and overwhelming complexity is involved in the existing housing assistance programs.

First of all, we have a myriad of programs. They differ widely in the way in which subsidies are given. Each is aimed at a rather narrow part of the overall housing assistance needs. The programs not only vary as they attempt to meet the problems of different income groups, but often vary in their efforts to serve the same group. Examples are the many programs designed to serve the elderly.

As a consequence, we have vast differences in the programs when they are looked at vertically, and we have overlapping programs when they are examined horizontally. There are not only too many programs, some of which overlap, but there are other anomalies and complexities as well.

While profits to a sponsor should obviously be limited, as in the case of nonprofit groups, limited dividend corporations, and cooperatives, there seems to be little logic for the variety of profit ceilings for the builder under different programs. Under one program it is 6 percent; under another it is 12 percent; under a third it is 12 plus 1 percent, or 13 percent. These differences should be rationalized.

Finally, under various programs quite different minimum standards are required. A high-rise built for the elderly under one program will be built to different minimum requirements than those for a high-rise built for the elderly under another, or for the nonelderly under a third. Minimum standards should be rationalized for high-rises built under a variety of programs, as the standards for walkups or detached units should be rationalized whether they are built under one housing assistance program or another. When the goals are substantially the same, the standards required under them should be interchangeable.

#### **Recommendation No. 11—State and local legislation to secure open housing**

The Commission recommends (a) the enactment of open housing legislation by the 28 States not now having an open housing



law; (b) the strengthening of the existing 22 State open housing laws; (c) the enactment of open housing ordinances by all cities and urban counties now without such ordinances; and (d) the vigorous enforcement of open housing legislation by all levels of government. The Commission considers legislative and administrative action proposed here and covering all residential dwelling units as the minimum legal, moral, and symbolic basis from which the Nation can proceed to attack the moral crises confronting urban America.

The Commission recommends positive action by the States which have not yet taken it to prohibit discrimination in the sale and rental of housing. The Commission is aware that the Supreme Court recently upheld the validity of the reconstruction statutes affecting the equal right of all to rent and own housing. It knows that the Congress after extended debate earlier in 1968 enacted open housing legislation. Despite these facts, several points must be borne in mind.

First, a number of States have already enacted open housing laws which cover some of the areas exempted by the Federal statute.

Second, lest the enforcement agencies of the Federal Government be swamped with an impossible workload in carrying out the 1968 act, States and localities need to carry the major part of the enforcement burden.

Third, the Congress, by wisely providing that the Federal act would not apply if a stronger, enforced State or local act were in effect, allows the enforcement of open housing legislation to remain, to the maximum extent possible, with State and local officials. This is in the tradition of decentralized government that has been a hallmark of the American federal system.

Fourth, the Supreme Court upheld an act which appears to have limited enforcement provisions.

We would be the first to agree that open housing legislation standing alone will by no means solve the major problem of social and racial disparities within our metropolitan areas. Legislation does, however, provide a legal, moral, and symbolic base from which other aspects of the problem can be attacked.

#### **Recommendation No. 12—Federal requirements of local legislative and enforcement action**

The Commission recommends that the Congress enact legislation to provide that all financial assistance programs (including grants, loans, and loan guarantees) administered by the Department of Housing and

Urban Development be conditioned upon the existence within the local government area being served of an enforceable open occupancy ordinance, or in lieu thereof, enforceable State legislation providing for open occupancy.

Despite the recent enactment of open housing legislation by Congress, a strong need continues to exist (as set forth earlier) for strong State laws and local ordinances in this field. The foregoing recommendation would make the existence and operability of open housing ordinances a prerequisite for any political subdivision to receive grants or loans from the Department of Housing and Urban Development or to have operating within its borders programs of loans or loan guarantees serving the private housing market.

The question will be raised as to why all Federal grant programs should not carry such a requirement. Perhaps they should; however, the concern of this Commission is with the urban areas, and it is in the urban areas that discrimination in the sale and rental of housing is having its most profound social and fiscal effects. The programs being operated by the Department of Housing and Urban Development, particularly those involving mortgage guarantees and the provision of grants for water and sewer facilities, are sufficiently attractive to private enterprise and to governments in the urban areas as to render it most unlikely that localities would prefer to do without Federal assistance rather than to enact and enforce open housing legislation.

#### **Recommendation No. 13—Areawide housing plans and administration**

The Commission recommends the enactment of State legislation to authorize carrying out the housing assistance function on a countywide basis both within and outside incorporated areas, and further to authorize and encourage the creation of multicounty housing agencies in those metropolitan areas covering more than a single county.

The Commission further recommends that States enact legislation creating or authorizing an instrumentality of the State to have the power of eminent domain; such power to be exercised for the purpose of building housing for families of low and moderate income in those municipalities or counties which have received Federal or State assistance for planning grants, urban renewal write-down, sewer or water projects or other programs, but which municipalities or counties have not used the land so subsidized for such purposes.

By shifting the locus of authority for the provision of housing assistance upward from the municipality to the county or region, and by using the State's power of eminent domain in appropriate circumstances, the problem of social and economic disparity among different parts of the metropolitan area may be brought gradually into more effective reach by local governments.

Overnight changes should not be expected because the county governing body would be influenced to a considerable degree in its selection of housing sites by the wishes of the individual communities involved. The important point is that in operating on a countywide or areawide basis through multicounty arrangements, with the aid of the State when needed, the options for location of housing are kept more widely open. As the newer forms of low-income housing assistance are authorized, such as rent certificates and rent supplements, the complete exclusion of such assistance activities by individual small municipalities would be gradually overcome. Furthermore, for so long as the local government veto over rent supplements and other forms of low-income housing assistance is retained in Federal legislation, the decision on whether or not the veto should be exercised would be made by a unit of government covering a wider geographic base.

#### **Recommendation No. 14—Elimination of local government rent supplement veto**

**The Commission recommends legislative action by the Congress to remove from the rent supplement program and the rent certificate program the requirement for approval by the governing body of the local political subdivision before such assistance can be provided.**

The veto provision was placed in the rent supplement legislation because Congressmen from suburban areas feared the potency of the rent supplement provision in "infiltrating" low-income tenants into suburban apartment buildings occupied in the main by moderate or higher income tenants; suburban economic and political interests saw in the rent supplement plan a threat to the white suburbs.

While generally the Commission subscribes to the principle that intergovernmental cooperation is best achieved through full consultation with local governments before Federal and State projects and programs begin operating, and consultation with State governments before Federal programs begin operating within the State, we do not think that Federal assistance intended for people—not governments—should be subjected to an absolute veto by State or local governments. We urge that Congress

act promptly to eliminate the local government veto provision from the Housing Act.

#### **Recommendation No. 15—"Extraterritorial" leasing by the city housing agencies**

**The Commission recommends that States amend their laws governing local housing agencies to permit, with specified safeguards, the leasing by such agencies of privately owned housing units anywhere in the metropolitan area.**

Where States find it impractical to authorize county governments to undertake the housing assistance function as recommended earlier, we urge that geographic restrictions upon the operations of city housing agencies be eased to permit, within certain limitations, the leasing of housing units elsewhere in the metropolitan area. This would enable the city public-housing agency to work more closely with the providers of employment opportunities in suburban areas so that low-income people could be provided rental housing close to their new employment. It would enable the spreading out beyond the ghetto in a suitable environment of limited numbers of low-income people. At the same time, we do not advocate one section merely transferring its problems to another, or a well-to-do section of a central city transferring its problems to the poorest sections of the suburbs.

From a practical political standpoint and in recognition of the fiscal problems involved, quantitative limitation would need to be placed upon such "extraterritorial" leasing. Such limitations might be of two kinds—a limitation upon the proportion of the agency's total operation, in terms of units that could be sent to any one community, expressed in fractional percentage of the population of the "receiving" governmental jurisdiction; or a limitation upon the length of the lease or of the time period the allowance was available. If, during the period of initial occupancy, a family had succeeded in finding employment and "graduated" from the need for housing assistance, the allowance could be ended or the leasing unit could become available for a new low-income family.

The Commission believes firmly that with such built-in limitations as suggested above, suburban communities have a solemn obligation to cooperate. It is a transitional means whereby a reasonably affluent suburban community can take its share of the problem without inundating itself with large numbers of low-income tenants requiring large immediate outlays for public facilities.



## **Recommendation No. 16—Improvements in public housing policy and administration.**

The Commission recommends the inclusion of a number of improvements in public-housing legislation.

As the public housing program has grown over the years, a number of policy and administrative barnacles have collected so that the effectiveness and expeditiousness of parts of this important program have not been as effective as they might have been. While considerable improvements have been made in recent years, public housing often remain a somewhat sluggish instrument of national housing policy. The steps proposed below are not exhaustive but are strongly stressed in connection with re-writing housing legislation (recommendation 9). The opinions of elected officials at state, county and city levels should be sought as to other ways in which public housing may be made more acceptable from the standpoint of political philosophy and public opinion and in terms of its administrative efficacy.

### **(a) Greater use of scattered sites**

The Commission recommends that the Federal Government take steps to use, and to support State and local use of a wide variety of sites feasible for housing purposes. This should include (without limitation to) parcels of vacant land within city borders, land owned by the Federal Government, dwellings on which VA and FHA mortgages have been foreclosed, abandoned sites reverting for delinquent taxes, urban renewal sites, and suburban land suitable for lease by city public housing authorities.

The large number of scattered sites which could be made available for public housing has been discussed in the public housing chapter. Implementation of plans to use as many of these sites as possible would do much to solve the location problems often cited as a major reason for delay in public housing programs.

### **(b) Use 10 percent of units in 221(d)(3) projects for low-income housing**

In order to provide additional housing for low-income families, and to bring about a small measure of economic integration, the Commission recommends that the developers or sponsors of 221(d)(3) moderate-income housing be required to lease a minimum of 10 percent of their units to local housing authorities for low-income housing.

### **(c) Removal of restrictions on amenities**

The Commission recommends that in the rewritten legislation, all restrictions on

amenities and accommodation standards now attached to housing assistance programs be dropped.

As a part of the philosophy of unleashing private enterprise in the construction of housing, the Commission urges that restrictions upon amenities now applied to subsidized housing be dropped as legislative requirements. This should apply to public housing as well as to subsidized private and nonprofit housing. With public housing, the Commission concedes the desirability of cost limits of some kind, but these limits should be more flexible than those now in effect, especially to meet the needs of the abject poor and the large poor family. However, State and local housing agencies should be free to do the best they can within the amounts allotted without being subjected to special restrictive requirements.

### **(d) Further encouragement to public housing tenants to purchase their units**

The Commission recommends not only that residents of public-housing projects be permitted to purchase their units in single-family semidetached and other "suitable" structures but that they be encouraged to enter into cooperative ownership in multi-family structures as an alternative to eviction when income rises above eligibility limits. The Commission further recommends that the present experimental provision for contributions in kind or "sweat equity" be extended and enlarged.

A most important objective is to keep stable families in housing projects who can help to upgrade the social environment of the project and prevent it from becoming a concentration of problem families. We welcome the provisions in the 1968 housing bill which further encourage that and urge the extension of the principle especially through cooperative endeavors.

At the present time, there are a number of experiments involving contributions in kind or "sweat equity" on the part of the tenant in both new construction (where he helps to complete the structure by serving as a carpenter's helper or laborer) and in providing maintenance in existing units (painting, repairing, etc.).

These experiments could be extended and used generally by public housing tenants to build up both an amount sufficient to cover a down payment and for a regular contribution to equity. For example, at the present time the rent for public housing units covers maintenance, reserve for depreciation, and payments in lieu of taxes. If the tenant provided labor, that portion now going as rent to cover maintenance could well be credited to the tenant's equity in the unit.

We urge that every effort be made to extend what are now experimental programs to more general use.

**(e) Interracial management staff**

The Commission recommends that the management staffs of public housing developments be interracial, with the Secretary of HUD given discretion to make exceptions only for compelling reasons.

To offset the strong feeling among certain racial and ethnic groups that they are not welcome at many public housing developments, positive steps must be taken to demonstrate that the Government intends to eliminate segregation in housing projects wherever possible. Integration of the management is strong and visible proof of this policy. We believe this action will ultimately reduce racial tensions and serve notice to all neighborhoods that the Federal Government intends to stand by its policy of fair housing and freedom of residence.

**(f) Related commercial uses in public housing**

The Commission recommends that public housing regulations permit related commercial uses in public housing projects.

The convenience and attractiveness of a public housing area can be enhanced by the use of concessions for provision of essential services such as a drugstore, grocery store, shoe repair, laundry, and so on. Concessions can also be a significant element in the financial management of the project. Properly designed and devoid of excessive commercialism, such uses can enhance the neighborhood and the community.

**(g) Provision of close cooperation between housing and social agencies in the community**

If municipal social services—health clinics, employment services, job training, and so on—are distant and difficult of access, use of them will decrease by precisely those portions of the community that need them most—the impoverished and unsophisticated. It would be uneconomic to decentralize such services within a public housing development of less than 100 residents, but over that size it makes sense to provide services directly to the project, on a scale commensurate with its size. The decentralization of such public services would tie in closely with the new congressional authority to upgrade public housing management services in order to take advantage of these programs.

**(h) Increased governmental funds for family planning**

Although many of the poor are elderly single people living in want, it is recognized that poor

families generally have more children than do middle-income or affluent families. Ofttimes, these are unwanted and illegitimate children whose presence precludes the family's entrance into public housing and creates other obstacles to improving its position in life. The consequent fact of not having an education or a job skill makes it difficult to secure adequate employment. The cycle is perpetuated. Therefore, the Commission recommends that increased resources be made available by the States, assisted with Federal funds through the Department of Health, Education, and Welfare, for family planning.

**(i) Removal of administrative regulations and legislative requirements which tend to restrict the number of units for large families**

Public housing units capable of housing families of five or more people are now scanty because of (1) cost limitations on unit construction through administrative policies (\$20,000); and (2) the fact that income (rent) from units depends on family income rather than size of units, so that the return from a larger unit may be no greater than the return from a small one. A larger unit may, however, take up space that two units could occupy and thus halve the possible return.

Local authorities should be urged to provide large units, based on surveys and determinations of need, in which case the Federal Government should provide additional subsidies even beyond those in the 1968 act to offset the financial drain on the local housing authority.

In the case of 221(d)(3) units, the present effective limit of \$17,500 per unit also has the effect of limiting the number of units available to the larger family whose need is now almost entirely unmet. This legislative restriction limiting the purchase of mortgages by FNMA to a dollar maximum of \$17,500 should also be removed.

In addition to "units built," the test of success should include the number of people housed.

**(j) Remove restrictive regulations which prevent architectural innovations in providing bedroom space for large poor families**

At present, small-bedroom sizes make it imperative to describe standard housing in terms of two children of the same sex to one bedroom. This is an artificial limitation. Innovative design might include, as one alternative, dormitory type bedrooms for three to six children. Very small bunk-bed niches are another alternative. Some public authorities have experimented with linking adjacent small dwelling units to



make single large-family units. Restrictive regulations should be removed to allow architects the freedom to find the best solutions.

**(k) Consideration of a 60-year mortgage for public housing units**

In the early days of public housing, a 60-year mortgage was common. Over time and for a variety of complex reasons, the terms were reduced to 40 years.

As it becomes more difficult to reach the most needy under public housing programs, the Commission suggests that very serious consideration be given to returning to the original term of 60 years as a means of reaching those whose incomes are now too low to be eligible.

**(l) Improve the quality of life**

While many public housing authorities are efficiently run and provide a much higher level of housing for their tenants than would otherwise be available to them, efforts need to be made to improve the quality of life in the units and projects.

The 1968 Housing Act authorizes \$15 million in fiscal year 1969 and \$30 million in each of the following years to upgrade management services in public housing. This is a most needed beginning step if public housing is to serve the disorganized poor and become more than a successful real estate operation. The denial by the Appropriations Committee of all the funds for fiscal year 1969 is a harsh blow to this program.

The need is especially great in highrise, multifamily units where family life can deteriorate in the absence of more playgrounds, child supervision, day care centers, etc. Elsewhere we have recommended that every attempt be made to use scattered sites, leased housing, and smaller economically integrated units in order to avoid some of the most serious problems. We welcome Congress' opposition to highrise, multifamily public housing except for the elderly and where there is no practical alternative.

But where, because of crowded conditions, the high cost of land, or effective local resistance to housing for the poor or the near-poor, high rises or large projects are necessary, these kinds of services become vital to the success of the projects and must be provided. The Commission believes, also, that with appropriate design and with additional services, highrises could be successful in some additional situations.

If a larger number of the poor are to be housed, the need for additional services and the improvement of the quality of life in assisted housing will be greatly increased. These additional services are of vital importance to the quality of life in public housing.

**Recommendation No. 17—Additional subsidy to reach the abject poor and the large poor family**

The Commission recommends that Congress authorize a supplemental subsidy to enable the abject poor and large, low-income families to afford monthly rentals in low-rent public housing and other assisted programs.

The Commission recognizes that the very low-income groups cannot, in many cases, afford minimum rentals in low-rent public housing. Simply put, these rentals reflect the cost of operation, maintenance and payments in lieu of taxes. The public housing formula subsidizes amortization and debt service.

In 1966 the average rental for all low-rent public housing in the Nation was about \$48 a month, which roughly covered the three items mentioned above. At 20 percent of income, this would require an annual income of \$2,880, which is in the higher levels of the poverty range. According to these averages, it can be concluded that those earning below this amount would not be able to afford low-rent public housing.

In the 1968 act, Congress took steps to resolve this problem by providing a supplemental subsidy patterned after the \$120 per year additional subsidy for the elderly under the low-rent housing program. Additional subsidies for the abject poor could be provided based on two factors: (1) Annual income and (2) size of family. This would be especially beneficial to large families.

Although this proposal is primarily directed toward the low-rent public housing program to offset the operating, maintenance and local tax costs which the rental payments of these most needy families would not cover, the subsidy should not be limited to those in this program. It should be permitted for use in 221(d)(3), rent supplement projects, 202 direct-loan projects and other assisted housing programs. The new interest rate program practically meets this need by the credit it gives for a deduction in income for each minor child.

A supplemental subsidy for the abject poor and the large poor family, sufficiently great to provide housing, should be made available in existing low-rent public housing developments (including leased housing) as well as in future public housing developments.

**Recommendation No. 18—Elimination of State and local referenda requirements for public housing and urban renewal projects**

The Commission recommends that States eliminate or modify those requirements in public housing and urban renewal enabling

legislation which call for submission of projects to popular referendum; if complete elimination is not found feasible, referenda should be required only when petitioned by a specified percentage of qualified voters.

The Commission recognizes that public housing and urban renewal programs change the face of neighborhoods, dislocate people and businesses, and have a considerable physical and social impact upon urban areas. It obviously is not only good government but good politics to subject these undertakings to public scrutiny and discussion through hearings and other appropriate and effective means. However, the Commission also believes that the essence of effective local government in this country is one of general rather than specific accountability of the governing body to the electorate. The governing body is elected to govern. During its term it does so to the best of its ability. At the end of its term the electorate renders a verdict upon the performances of its officials. Local government cannot function effectively if various of its actions are determined by plebiscite. We do not apply such methods to the National Government; to handcuff our State and local governments is to foster centralization. Furthermore, some of the requirements for referendum are either open or covert means of excluding the poor and Negroes from white, middle-class neighborhoods.

The Commission sees a marked difference in the role of an elective local governing body with regard to a petition-based referendum on its action, as compared with a mandated referendum on *all* such actions it may propose. In the former instance, the burden of proof rests with the objectors; in the latter, the governing body presumably must in every case prove the wisdom of its action.

Mandatory referendum requirements should be eliminated not only because of their widely undesirable effects on local government practices, but, more fundamentally, because they contradict sound principles of representative local government. These principles call for the placement of extensive responsibility with an elective legislative body, subject to popular control primarily through recurrent election rather than by automatic exposure of its actions to "item-veto" at the polls.

#### **Recommendation No. 19—Larger role for States**

The Commission recommends that in the enactment of revised and simplified housing legislation, the Congress not only permit the present channeling of housing assistance funds directly to cities but also to particular States under certain conditions—to wit:

where the State (a) provides for a statewide housing authority or other appropriate administrative machinery, and (b) provides from State funds a supplementary amount equal to at least half of the Federal assistance. Under such an arrangement, the qualifying State would receive its appropriate allotment of funds under a statewide housing assistance plan approved by the Secretary of the Department of Housing and Urban Development, following which the review and financing of local projects under the plan would be effected by the State, eliminating the present detailed time-consuming and frustrating Federal project reviews. The Commission emphasizes that this shift in intergovernmental relationships must be effected selectively as individual States demonstrate readiness to move vigorously in the field of housing assistance on both the program and fiscal fronts.

The cities have been required to raise the funds and bear the responsibility for almost insoluble problems with little State help in the past. They have understandably objected to placing the States between themselves and the Federal Government, slowing down action, and, in many cases, erecting a hostile or unsympathetic force between the city and the Federal programs. This State "interposition" is not proposed here, and where it is attempted, it should be rebuffed in no uncertain terms.

Beyond passing enabling legislation which allowed local authorities to act, or which delegated State police powers over zoning and building and housing codes to the cities, most States have played a minor and a passive role in housing the American people, including those with low incomes. But there is a larger role for them to play, and many States are prepared to act.

They should act first in those geographical areas where no adequate city or regional government machinery now functions. Second, the States should act when the localities either refuse or are unable to act. This is especially relevant where localities refuse to provide land or build housing for low-income citizens. Third, there are a large number of areas, such as zoning, building codes and housing codes, where the State should perform appeal functions and where the State should train personnel in order to insure both uniformity and competence.

As a condition to becoming a full partner in housing assistance programs, the States should be required to provide a substantial proportion of the funds. We suggest a guideline of 50 percent of the amount of the Federal allotment, thereby augmenting the amount of housing assistance available to the locality by one-half.



### **Recommendation No. 20—Federal Government—Builder of last resort**

The Commission recommends that if, after a reasonable period of time, State and local action fails to make substantial progress toward meeting the needs for low- and moderate-income housing as determined by the Secretary of Housing and Urban Development, after consultation with the appropriate local officials, the Federal Government become the builder of last resort.

It is essential that the goal of a decent home and a suitable living environment for all American families be met. Within the proposals we make to establish goals, simplify programs, pool resources, provide the economic climate in which the programs can function, and assert Federal leadership to help the neediest communities, the Commission proposes a series of steps and an arsenal of administrative weapons to be triggered or escalated upon the failure or inaction of those with primary responsibility.

The first level of responsibility to provide housing for poor people without regard to race or creed should remain with the local communities. They should be given a maximum amount of freedom and Federal financial assistance to carry out their responsibilities within the framework of the larger national goals. But they must meet their responsibilities.

If the local communities fail, then State action is called for. In addition to whatever voluntary programs they may wish to carry out, the States should exercise their authority to provide sites, develop plans, and build projects for low-income families when a locality fails in its responsibility. A State housing authority could act as the administrative agent for this direct activity.

If both a locality within a State, and the State itself, fail in their responsibilities to help meet the present crisis in the supply of housing for low-income Americans, the Commission believes that the Congress should authorize an emergency low-income housing program under which the Department of HUD would, as a direct Federal operation equipped with the powers of eminent domain, build and have ready for occupancy such portion of 500,000 low-income housing units a year as remains unmet by local and State action.

### **Recommendation No. 21—Consolidation of housing assistance activities**

The Commission recommends that all low- and moderate-income housing assistance programs be administered by a single agency within the Department of Housing and Urban Development.

Any discussion of the administration of the various low- and moderate-income housing assistance programs of the Federal Government inevitably leads to the question of why fragmented responsibility of these programs is parceled among different parts of the Department. The rent supplement program and below-market interest 221(d)(3) programs are administered by the Federal Housing Administration. On the other hand, the rent certificate and the conventional public housing programs come under the jurisdiction of the Deputy Assistant Secretary for Housing Assistance, who, in turn, is responsible to the Assistant Secretary for Renewal and Housing Assistance.

Questions are often raised in Congress and elsewhere as to why programs designed to aid the poor should be administered by FHIA—an agency dedicated by tradition to a banker-like approach to housing. Under the foregoing recommendation, all housing assistance programs would be administered “under one roof,” with similar objectives and attitudes governing all of the programs.

Many housing experts would advocate reorganizing all low- and moderate-income programs under one administrative unit of HUD regardless of whether they are insuring activities, grant-distribution activities, or direct loan activities. Moreover, such programs should then be operated under one philosophy whereby builders, developers, recipient agencies, and individual recipients would be subject, respectively, to identical requirements, rules and regulations.

### **Recommendation No. 22—Removal of State constitutional barriers**

The Commission recommends that each of the industrial or highly urbanized States remove existing constitutional and statutory barriers to involvement of private enterprise in efforts directed toward enlargement and revitalizing the economic and fiscal base of their major cities.

During the past few years increased attention has been directed, both in Congress and in the Federal executive branch, to ways by which the Federal Government and private enterprise might work more effectively together in meeting the crisis in the Nation's cities. This attention has been prompted by the growing realization that no one level of government—nor even the public sector working in concert—can cope with the manifold problems confronting local governments in our metropolitan areas. Many proposals have been put forward, and many others are in the making, for new types of business-Federal Government partnership arrangements for the rebuilding of the cities.

The Commission urges a similar soul-searching on the part of State Governors and legislators for ways in which the private sector of the economy may be drawn more effectively into State-local efforts to ease urban problems. The Commission has no specific proposals for State-private cooperation that might be authorized by constitutional or statutory change, but is confident that many potentialities exist. For example, a number of State constitutions contain provisions prohibiting the use of the State's credit in private undertakings.

Also, State and local tax policies should be reviewed to ascertain whether they encourage or discourage replacement of obsolete structures; upkeep of living quarters, and the general rehabilitation and upgrading of neighborhoods. Likewise, State and local tax policies certainly affect land use and subdivision development in urban areas. Moreover, cooperative efforts between State and local agencies and private enterprise can assist in providing training for unskilled people and their subsequent employment.

With the increasing responsibility faced by government at all levels in combating poverty, crime, delinquency, and inadequate education in the metropolitan areas, State constitutions and statutes need to be searched to (a) identify barriers to public-private cooperation; (b) evaluate the reasons for the barriers; and (c) remove or lower them unless compelling reasons to the contrary are found.

#### **Recommendation No. 23—Establish programs of urban advisers**

The Commission recommends the establishment of a program for urban advisers for the cities paralleling the county agent program established for rural families almost half a century ago.

Paid in part from Federal funds, and with contributions from both the State universities and the localities, the county agent took to rural people the most up-to-date knowledge on modern farm practices, helped organize farm co-operatives, and informed rural people of the programs and services available to them from the Federal, State and local governments, private enterprise, and private social agencies. Whether the farmer needed a loan from the Federal Land Bank, an autopsy of his pigs performed at the State university, a chance to take part in local fairs, a booklet on fertilizers, or help on a personal problem, he could seek help from the county agent.

There is no reason why an urban adviser responsible to representative local groups and having jurisdiction in areas of a variety of sizes depending upon circumstances could not

provide similar services. Among them he could—

(1) Help to establish cooperative, limited dividend and other nonprofit housing groups to serve the needs of the low- and lower-middle-income groups;

(2) Help local people take advantage of existing public and private programs and services available to them;

(3) Serve as an expediter in the relationships between local groups or governments and Federal programs; and

(4) Help to organize, initially, a variety of programs and institutions such as day-care centers, health services, recreation programs, summer job opportunities, et cetera, which then should be run permanently by local groups or existing local agencies.

Such a program would no doubt require the use of existing or new mechanisms through which the adviser could be responsible to local groups and institutions. Carrying out the proposal will require some constructive thought as to how this should be done.

#### **Recommendation No. 24—Programing the urban renewal process**

In line with the approach contained in the neighborhood development program enacted in title V of the Housing and Urban Development Act of 1968, the Commission not only recommends permitting urban renewal projects to be carried out in a series of annual undertakings not limited to a single area in accordance with the general plan, but also provision of Federal assistance for continuing local programing and planning not clearly provided in the new act.

This would change the basic urban renewal approach from project to process. Before the change in the 1968 act, the law required that each urban renewal project be treated separately, and that each of its three major phases be finished before any part of the next phase could begin.

Under that system, there were three major phases which had to be undertaken in series: the survey and planning phase, then the loan and grant phase, part I; and, finally, loan and grant, part II. Each required both local and Federal approval before the next phase could begin. Some allowances have been made to permit, for example, early acquisition of land within project areas prior to final project approval. The neighborhood development approach adopted by Congress allows some modification of this with respect to grants. This recommendation, in contrast, would permit continuous, *and if necessary simultaneous*, programing of all activities, including planning as well as loan



and grant. The whole plan does not have to be completed in detail before parts of the process get underway.

We propose to extend the application of this principle to permit any portion of the urban renewal process to be advanced, if that proves useful and feasible. Moreover, if a city has more than one urban renewal project underway, certain of these activities (such as rehabilitation) could be going on in all the projects at once, regardless of the phase each project is in; this would speed up the entire urban renewal process and bring about economies.

More than that, it would be more humane. Relocation services, for example, could begin immediately for those to be displaced; rehabilitation of those houses scheduled to remain could also start; certain public improvements and facilities might well be constructed earlier.

Programing and planning should be continuous and not tied to a specific area or a specific project. This is needed to keep the new neighborhood development program operating smoothly from year to year. It could also provide data needed for overall national estimates of need and capacity to carry out community development efforts at whatever rate the national economy would permit. Such information is now available for other programs. We should be able to provide it for the cities, too.

#### **Recommendation No. 25—Housing and other facilities for low-income Americans in urban renewal project areas**

##### **(a) Land for low-income housing**

The Commission recommends that no urban-renewal project be approved by the Department of Housing and Urban Development unless it fits into an overall set of urban-renewal projects under which the rate of construction of low-income units for all of the projects meets or exceeds the rate at which they are removed. The Secretary should be authorized to waive this requirement where cities can demonstrate that they are meeting the objectives of housing low-income families through action under this or other public and private programs. An annual report of such waivers and the detailed proof on which they were based should be submitted to Congress.

Much pulling and hauling has gone on for a number of years as to the percentage of renewal funds which could be expended on commercial and other nonresidential buildings in relation to dwellings. The Commission believes that the present nonresidential ceiling of 35 percent probably should not be raised. In any event, we urge strongly that the Congress protect and pre-

serve part of the residential component for housing people of low incomes, regardless of the method by which such housing may be subsidized—that is, interest rate, rent supplement or public housing. The provisions in the 1968 Housing Act requiring at least half of the housing component for low- and moderate-income groups and at least 20 percent for low-income groups, is a major step in the right direction. Beyond this, it is essential to return to the intent of the original 1949 act and make certain that an abundance of housing for low-income Americans in the community, on and off the urban-renewal site, be provided.

The land write-down provisions of the urban-renewal program make it possible to house the poor in those otherwise high-cost areas. By the use of several subsidy methods, the local community and the private interests concerned should be able to meet the many economic and financial considerations necessary to the formulation of an urban renewal project.

In some areas, communities have provided large quantities of low-income housing on urban-renewal sites. In others, an abundance of public housing may have been provided. Where this can be shown, we recommend that the Secretary have the power to waive the requirement.

##### **(b) Attraction of commercial component to project**

The Commission recommends that every effort be made within the nonresidential component to attract jobs and other establishments to be owned by residents of the project area.

While the Commission has excluded the general problem of ghetto employment from the primary scope of its work and the coverage of this report, the extent to which the commercial component of urban renewal offers employment and livelihood to the residents bears directly upon the kind of housing made available in the renewal area and upon the preceding recommendation dealing with the portion of project-area housing to be occupied by former residents. The availability of jobs is (or should be) a basic determinant in residence choice. If we are to break the cycle of "Negro removal" charged (often accurately) by critics of the program, we must break it at both the housing phase and the employment phase. Considerations of urban architecture and design are not in conflict with this proposal, but the narrow view of the economic welfare for commercial establishments must "give" to some degree if we are to begin to remedy the ghetto housing problem rather than merely transfer it from project area to project area.

**(c) Replacement of low-cost housing demolished under Federal or federally aided programs**

The Commission recommends that in addition to new housing being constructed to meet the low-income housing needs identified in this report, there be a specific linkage of urban renewal and other Federal or federally assisted programs involving demolition of residences, to Federal programs providing new housing in the areas affected, so that sufficient new housing available to low-income households (including but not limited to those displaced) is constructed in those areas to offset the market pressures created by the demolition of existing residences.

**(d) Use of highway funds to replace low-income housing demolished for highway construction**

The Commission recommends that highway funds be used to finance the construction of new housing for low-income households in a metropolitan area where demolition for highway construction reduces the supply of such housing, with the requirement that definite commitments to construct the new housing concerned be made before existing housing is demolished.

The Commission also calls attention to an earlier recommendation (No. 18) calling for the elimination of State and local referendum requirements for public-housing and urban-renewal projects.

**Recommendation No. 26—Reward for efficient performance**

The Commission recommends that where cities demonstrate that they are meeting national housing and community development objectives, and where they have technically qualified and professionally competent staffs and have established good records of performance, Federal urban renewal assistance sufficient to support activities at a high level should be made without detailed and time-consuming reviews of proposed action and activities. Financial auditing and a general appraisal conducted at reasonable intervals can determine exact amounts of assistance due.

As our studies indicate, the time involved before an urban-renewal project is finished has averaged between 6 and 9 years, with about one-third of them taking more than 9 years. While many delays are due to the inherent nature of assembling land and constructing buildings, some delays are due to the large number of detailed requirements demanded of localities. The

President's task force and the Housing and Urban Development Department have brought improvements in recent times.

Nevertheless, where a community has made a good record, the process could be and should be speeded up in the ways we suggest.

**Recommendation No. 27—Funds for special programs**

The Commission recommends that an additional sum amounting to from 1 to 5 percent of the Federal grant for a local program be made available in a contingency fund for program activities peculiar to the needs of the locality but not necessarily eligible under the detailed urban renewal regulations.

Much time and energy is spent in determining whether some particular local activity falls under the specific regulations of the urban renewal agency. This may involve merely hiring staff men for peculiar local needs or the expenditures of small sums on activities not clearly allowed or banned by the regulations.

Our recommendation would provide a small additional sum, to carry out activities which are clearly related to the purposes of urban renewal but about which undue controversy and excessive time would be spent in making a determination.

The larger proportion of up to 5 percent is clearly intended only for relatively small projects, while the 1 percent limit would provide very adequate funds under some of the larger projects.

The amendment is intended to help speed processing, to reduce administrative rigidities, and to provide some small amounts for administrative, structural, or social innovation.

**Recommendation No. 28—Long-term leasing of urban renewal land**

The Commission recommends that urban renewal agencies not dispose of fee title to the land they acquire but that it be leased for a period ranging from 60 to 90 years, or a period equal to about one and one-half times the length of the mortgage on the property.

There is a major public interest in land which has been acquired by public processes. Society should have an opportunity at reasonably long intervals to determine to what use land which it has purchased should be put. A period of one and one-half times the length of the mortgage, or from 60 to 90 years, is sufficient to preserve the public interest without discouraging potential users.

This proposal is a specific application to urban renewal land of the more general land recommendations in Part III, chapter 2, of the Report.



### **Recommendation No. 29—Extended relocation services**

The Commission recommends that the fund allotment for each project allow for the provision of relocation, counseling, health services, and other social services to the residents of the area while demolition, new construction, and other renewal activities are proceeding and up to the time that residents are either satisfactorily relocated in another area or brought back to the project area after renewal has been completed.

Processes of social disorganization inevitably accompany urban renewal. The physical facts of life make the removal of old buildings and the construction of new ones necessary. In the meantime, residents are uprooted and many of them moved, temporarily at least, to other locations. This places a serious strain on personal and family life even if relocation payments are prompt and adequate. Concentrated social services need to be brought to bear to help avoid school dropouts, to meet health emergencies, to find new housing, and to get access to other needed municipal services.

To insure the availability and continuity of social services to urban renewal displacees, the Commission suggests earmarking—both in terms of personnel and of funds—for these purposes from the resources budgeted for the renewal project. A simple requirement to this effect should be stated in the governing Federal legislation amplified as necessary by Federal and State or local regulations.

### **Recommendation No. 30—Relocation housing**

The Commission recommends that the Housing Act be amended to authorize the Secretary of Housing and Urban Development to provide loans and/or grants to communities for construction of new facilities and/or the acquisition of existing facilities to house families forced to be relocated as a result of public improvements and natural disasters.

### **Recommendation No. 31—Uniform and effective relocation policies**

The Commission recommends that the Congress and State legislatures take action to make programs of acquisition and relocation both adequate and uniform for all programs which remove businessmen and residents, including tenants, in the course of land acquisition for public works programs.

Under the powers of eminent domain, governments at the Federal and State levels can *force* owners to sell their property if the government needs it for urban renewal, highway

construction, other programs requiring the physical appropriation of land, or if housing is dilapidated and cannot be repaired to meet the minimum housing code requirements. This often causes the sale of property and forces the displacement of tenants.

The hardship that these many different programs, at all levels of government, can bring to the lives of people and to the solvency of businesses arises from two major effects—the great variety and lack of uniformity in their application, and the special hardship that displacement confers, especially on certain groups of people.

#### **(a) Uniform relocation policy and payments under Federal and federally aided programs**

The Commission recommends the following features: (i) Federal legislation to provide for uniform relocation policies for all Federal and federally aided programs; (ii) allowance for compensation beyond fair market value for owner-occupants so they can purchase a similar home elsewhere without capital loss; (iii) provision of relocation adjustment payment paid either as a lump sum or over time for tenants who must pay higher rents because of relocation or who must move more than once; (iv) the requirement that adequate-quality housing be available for those displaced by any demolition before the demolition takes place and at prices they can reasonably afford; (v) the use of a specific center at the city or county level for all programs involving relocation; (vi) parallel State legislation to cover similar State or local public works programs; and (vii) authority for the use of mobile homes for interim relocation housing where required.

The inconsistent application of relocation programs is shown most keenly in urban areas, where programs of all kinds at all three levels of government most frequently come together, and where different Federal and federally aided programs have an impact on neighboring properties.

Until recently, a homeowner whose property was taken for an urban renewal project was entitled to moving costs of up to \$200. His neighbor, whose property was taken for a federally aided highway program, was entitled to \$200, but only if the State had authorized it. As of April 1968, 14 States had not authorized such payments and even among the States that had, an appreciable number had not authorized payments up to the Federal limit, or not for tenants and lessees. A third homeowner in the same neighborhood may have received nothing at all if his property was taken by the General

Services Administration for a Federal office building. Tenants, of course, received nothing under any program unless Federal and State legislation had been enacted to authorize it.

Inconsistency in payment of business moving expenses is even greater; for example, the Federal Aid Highway Act allowed business moving expenses only up to \$3,000, whereas displacement by a federally aided urban renewal project entitles a business owner to as much as \$25,000 for moving expenses.

Many provisions in both the 1968 Housing Act and the extension of the Interstate Highway program meet a number of these criticisms. But the general principles that we advocate remain and should be fulfilled as time proceeds.

The availability of substitute housing before demolition is so crucial to relocation, and to the programs which make relocation necessary:

The impact of relocation is never gentle, but the worst problem is caused by the lack of standard substitute housing for low-income groups. Nonwhites have the most difficult relocation problems of all, because of their generally lower economic and educational status, the frequent use of urban renewal in the very neighborhoods where they are concentrated, and the various public and private practices which have restricted their access to alternate housing. Large families have extreme difficulty in relocating, whether white or nonwhite, as do the elderly, whose limited incomes and reduced emotional capacity for readjustment make them especially vulnerable.

**(b) Unified provision of services to those displaced**

The Commission recommends that Congress allocate, through the Department of Housing and Urban Development, funds for the provision of all necessary services, both housing and social, to families and individuals being displaced.

**(c) Improvement of relocation and displacement payments**

The Commission recommends that the amount of payments made to those displaced and relocated from urban renewal projects be increased and related to household size.

The Commission notes that the difficulty of relocation is compounded as the size of the family increases, and suggests that an additional flat payment be made to families displaced, over and above the amount of normal relocation payments.

**(d) Direct GNMA mortgages in hardship cases**

In order to meet the severe problem of lack of provision for the displaced family, the Commission recommends that the Government National Mortgage Association accept direct mortgage applications from families displaced by public action when local banking institutions place unusual financial requirements on such persons as a condition of granting the mortgage.





# Part III. Codes and Standards

## CHAPTER 1

### Land-Use Controls: Zoning and Subdivision Regulations

Land-use regulations—zoning and subdivision controls—are the chief regulatory tools used by local governments to guide development within their borders.<sup>1</sup> All 50 States authorize these local regulations, and more than 10,000 local governments have adopted them. One of the tasks assigned to this Commission was to study these regulations and the purposes they were designed to serve, and to recommend how they could be made to serve those purposes better.

Regulations, of course, do not build cities. Among the many public and private decisions that produce urban growth and decay, regulatory decisions play a relatively minor part. When governments at all levels build and spend and tax, they shape cities directly, and they set in motion market forces that regulations cannot fundamentally alter.

Yet, though regulations are not the most important of public actions that guide development, they do significantly, influence the complex process of city building. And that influence extends beyond the physical relationships that are their primary concern, affecting such diverse matters as employment opportunity, housing opportunity, and local tax rates. Critics today are attacking land-use regulations, particularly zoning, both for what they are doing and for what they fail to do. There are charges that regulations act to reinforce racial and economic segregation, raise the costs of housing and stifle interesting and innovative design. And there are charges that regulations are failing to protect established neighborhoods, to prevent sprawl on the outskirts of cities and decay within them. Finally, there are charges that the administration of regulations is too often riddled with favoritism and corruption. The next two chapters explore these criticisms, evaluate the present state of land use controls and sug-

gest how such controls may better carry out the social, political, economic, and physical objectives of American urban life.

#### ORIGINS AND CONVENTIONAL PATTERNS

##### *Beginnings*

Today's zoning and subdivision regulations are but the current stage of a long-established process. From the earliest days of Colonial America, governments and private interests have continually sought better ways to build good cities. The public and private responsibilities have been very different at different times. Sometimes government has been the planner and builder, the chief architect of the urban environment. At other times, government has tried to withdraw almost entirely from the field. Today, the mix is somewhere between the extremes of earlier times. The process of evaluation and change continues, stimulated by growing complaints that the results of past efforts are inadequate.

##### *Prezoning*

In Colonial America it was common practice for government to take the initiative in urban development. As early as 1573, Philip II of Spain issued the laws of the Indies that governed the establishment of towns from St. Augustine to Los Angeles. In the latter half of the 17th century and the early years of the 18th, colonial legislatures in Virginia and Maryland designated sites for towns, established the method of land acquisition and valuation and provided for their layout and for the disposition of town lots. Public land acquisition for urban development was common in these two colonies in the 17th century. A total of 77 sites were designated for settlement, including such elaborately planned towns as Annapolis and Williamsburg.<sup>2</sup>

<sup>1</sup> A third form of regulation, much less widely used, is the "official map," which designates areas in advance for later public acquisition for use as streets, parks or other public facilities.

<sup>2</sup> The source for much of this material is John W. Reps, "The Future of American Planning—Requiem or Renaissance?" *Land Use Controls*, Vol. 1, No. 2, 1967, pp. 1-16.



The tradition of public land acquisition for new cities continued after the Revolution. A persistent George Washington persuaded even the most stubborn land owners to sell the land needed for the Nation's new Capital. The new city of Washington was planned on 5,000 acres of land, all publicly acquired from private owners. Among many other examples of cities initially laid out on public land (either already in the public domain or acquired for the purpose) are Raleigh, Tallahassee, Detroit, Chicago, Columbus, and Indianapolis.

Another, stronger current also runs through the Nation's urban history. This is the tradition of individual land ownership largely unfettered by public control of its use. It was the lure of virgin land that brought many settlers to America, and the prospect of getting land cheap—or free—led many of them to the West. Only a few years after the Revolution, the Continental Congress provided for the division and sale of the vast territories belonging to the new nation. The free market in land, including speculation and “boom and bust,” was to be a dominant force in 19th century America.

The “invisible hand” of the market dominated the growth of most 19th century cities. In 1811, the commissioners' plan for New York City established a grid of “paper streets” many miles north into the then undeveloped territory of Manhattan. Unlike the plans for Washington or Williamsburg, which proposed or recognized urban centers and focal points, this plan consisted essentially of a uniform grid of streets and avenues. The role of government was limited to drawing up a giant chessboard on which the forces of the market would build the future city. This *laissez faire* city planning was to be repeated endlessly in new and growing communities across the land.

It was soon apparent, however, that the invisible hand could not alone provide a good life for the growing numbers of people crowding into the cities. Two broad kinds of public response resulted:

An emphasis on minimum standards to which everyone is entitled. Early tenement house laws responded to this emphasis, as do today's housing codes and programs for subsidized housing.

A broad concern with amenity and efficiency in urban life. The 19th century “park planners” operated in this tradition, and much of today's planning movement is its outgrowth.

In 1867 the first New York tenement legislation was enacted, a year after the city health department had been established. The 1867 law slightly restricted the tenement's lot coverage, and further legislation in 1879 and 1901 re-

duced coverage to 65 percent. Within a few years, New Jersey, Pennsylvania and Connecticut passed comparable laws, and between 1905 and 1908, Chicago, Boston, and Cleveland adopted similar ordinances.<sup>3</sup>

Other cities were restricting building heights and land use in the interests of public health and safety. San Francisco and Los Angeles passed ordinances in the 1880's limiting the location of laundries.<sup>4</sup> In 1889 height restrictions were placed on buildings in Washington, D.C. In Boston, height regulations were enacted in 1903 and upheld by the U.S. Supreme Court in 1909 as a valid exercise of the police power.<sup>5</sup> Fire district ordinances, prohibiting the building of wooden structures in designated areas, were also becoming increasingly common.

The park planners, meanwhile, were pressing for other public action to improve the quality of urban environment. The crusade for parks took hold after 1860. The Columbian Exposition of 1893 stimulated the “city beautiful” movement that was to produce such influential plans as the Senate Park Commission's replanning of Washington in 1901 and Burnham's Chicago plan of 1909.

Zoning grew up against the background of these developments—and out of the efforts of property owners to prevent unwanted change of their neighborhoods. In 1907, a group of Fifth Avenue merchants banded together to try to protect the fashionable shopping district from encroachment by the new factories of garment manufacturers. The Fifth Avenue Association joined forces with city planning advocates to bring about the establishment of the Advisory Commission on Height and Arrangement of Buildings, which in turn laid the foundation for the drafting and adoption of the New York zoning resolution. That resolution, adopted in July 1916, set the basic pattern for zoning ordinances to the present day.<sup>6</sup>

### *The spread of zoning*

Zoning spread quickly during the 1920's. By 1925, 368 municipalities had passed ordinances; and by the end of 1930, more than 1,000.

<sup>3</sup> *Principles and Practices of Urban Planning*, edited by William I. Goodman and Eric C. Freund, published by International City Managers' Association, 1968, p. 17.

<sup>4</sup> At first such ordinances were struck down by the courts as discriminatory against the Chinese, but they were later upheld as valid measures designed to protect public health and safety.

<sup>5</sup> *Welch v. Swasey*, 214 U.S. 91 (1909). An earlier effort to control height in Boston through use of the eminent domain power was upheld in *Attorney General v. Williams*, 55 N.E. 77 (1899), *aff'd* 188 U.S. 491 (1908). The Massachusetts court indicated by way of dicta that the police power could be used to limit building heights.

<sup>6</sup> Los Angeles had in fact “zoned” its entire area in one way or another by 1915. The city was divided into one large residence district in which only the very lightest manufacturing was permitted; 27 industrial districts, permitting all uses; and about 100 residence exception districts permitting all but heavy and objectionable uses.

State enabling legislation, giving municipalities specific authority to zone, became common during the 1920's. This State action was substantially aided by the Federal Government. In 1921, Herbert Hoover, then Secretary of Commerce, appointed an Advisory Committee on Zoning in the Department of Commerce. In 1924, the Committee issued the Standard State Zoning Enabling Act, a model upon which a great deal of State zoning legislation is still based.<sup>7</sup> By 1925, 19 States had adopted statutes substantially similar to the model. By the end of 1930, some or all localities in every State were legally empowered to adopt zoning ordinances.

The reaction of the courts was a central pre-occupation of zoning's founders, and early judicial response in the State courts was mixed. Constitutional doubt about the concept of zoning was settled in 1926, however, when the Supreme Court of the United States decided the landmark case of *Village of Euclid v. Ambler Realty Co.*<sup>8</sup>

### *Subdivision regulations*

The regulation of land subdivision existed in this country from its earliest days and survived in some form even during the 19th century. Much of the 19th century regulation, however, was mainly designed to assure the adequacy of engineering data and the accurate recording of plats. Gradually, however, the objectives were broadened. Some States required that new streets be designed to tie into existing ones and that streets be dedicated to the public. Enforcement was achieved by requiring governmental approval of street layouts before plats could be officially recorded and lots sold.<sup>9</sup>

The present form of subdivision regulation, like that of zoning, bears the stamp of the 1920's. At that time, subdivision regulation began to be widely considered as a means of guiding urban growth. In 1928, the Department of Commerce issued the Standard City Planning Enabling Act, a model act that made subdivision regulation one of the tools of comprehensive planning and placed major responsibility for administering subdivision regulations in local planning boards. While the Standard City Planning Enabling Act did not take State legislatures by storm in quite the fashion of its zoning predecessor, many States did enact planning statutes that bore some resemblance to the Standard Act.

Local subdivision regulations were becoming widespread by the time the depression halted most subdivision activity. A 1934 survey found 269 municipal planning commissions in 29

States with power to regulate land subdivision, and an additional 156 commissions empowered to act in an advisory capacity on such regulations.<sup>10</sup>

### *Conventional patterns*

Despite increasingly important changes, the form of today's land use regulations, and often their substances as well, still commonly fall within the conventional patterns established in the 1920's. Of course, no one local regulation is typical of these patterns: Objectives, techniques, and administrative practices reflect the varying desires of thousands of local governments. A rudimentary zoning regulation in a rural village may do little more than exclude a few noxious uses from residential areas, while a regulation for a large city or a prosperous suburb may establish an array of districts and a complex administrative process. There are, however, some elements that are common to most of the current regulations that fall within the conventional pattern.

#### *(1) The zoning ordinance*

a. *Regulated subjects.*—A zoning ordinance typically prescribes how each parcel of land in a community may be used. Most regulations cover at least these subjects—

Use: First, zoning ordinances designate permitted "uses" (activities). Many divide uses into three basic categories: Dwellings, businesses, and industry. These basic categories are usually divided into subcategories. It is common practice, for example, to distinguish between one-family detached houses and apartment buildings, between "light" and "heavy" industry. Over the years ordinances have tended to establish more and more use categories. Ordinances with more than 20 different use categories are now common, and many ordinances now make specific provision for hundreds of listed uses.

Population density: A limitation on population density is also part of today's accepted zoning pattern. Most ordinances establish this limitation by setting a minimum required size for each lot. Alternatively, they may limit the number of families per acre or set a minimum required lot area for each dwelling unit on a lot. Some, particularly in large cities, establish more refined density controls that try to take account of the likelihood that more people will live in larger apartment units than in smaller ones.

Building bulk: Zoning regulations also limit building bulk. Usually, they do this by requiring yards along lot boundaries, by limiting building height, and by limiting the proportion

<sup>7</sup> A revised version was issued in 1926.

<sup>8</sup> 272 U.S. 365 (1926).

<sup>9</sup> *Principles and Practices of Urban Planning*, op. cit., p. 444.

<sup>10</sup> Reps., "Control of Land Subdivision by Municipal Planning Boards," 40 Cornell L.Rev. 258 (1955).



of lot area that may be covered by buildings. Refinements of these devices have become common, in recent years, as communities have recognized that rigid yard and height requirements often deter imaginative design. "Floor area ratio" and "usable open space" requirements are among the increasingly common refinements.

**Offstreet parking:** As an addition to the original pattern, most zoning ordinances now contain offstreet parking requirements. These are intended to assure that new development provides for at least some of its own parking needs rather than adding to the number of parked cars on already crowded streets.

**Other subjects:** Many other requirements also appear in zoning regulations. Minimum house size, landscaping, signs, appearance of buildings, offstreet loading, view protection, and grading are just a few of the other subjects sometimes regulated.

*b. The zoning map.*—In recognition of differing conditions and planning policies in different parts of each community, zoning regulations establish "zones" or "districts." Within each of these districts a uniform set of regulations dealing with uses, bulk, and the like apply. Thus, for example, stores may be permitted in one district but not in another. To show the location and boundaries of these districts, the ordinance includes a zoning map.

The number of districts and the nature of the differences between them vary greatly from town to town. Most ordinances contain at least one district in which single-family detached dwellings are the only permitted residential use. Often there are several such "single family" districts, distinguished from each other primarily by differences in the required minimum lot size; one district may require each lot to contain at least 2 acres, another at least 1 acre, and so on. Many ordinances also contain general residence districts, in which other types of dwellings are also permitted; these, too, are often differentiated by density requirements. Ordinances also commonly contain a variety of commercial districts bearing such names as neighborhood retail, central business, heavy commercial, and commercial recreation. They are commonly distinguished from one another by variations in permitted activity, bulk, and parking requirements. And industrial districts may differ from each other with respect to permitted activities, bulk regulations, and "performance" regulations limiting the amount of smoke, noise, or odor that industries may produce.

In addition to the basic districts—those based on the traditional triad of dwellings, business and industry—scores of other kinds of districts have been devised since the early days of zon-

ing and are now commonly used to fit local conditions and policies. Agricultural districts, industrial-park districts, and special districts for public land are examples. Some of the newer districts allow a mixture of traditionally separated uses, such as residential-office and residential-commercial districts. Others are intended to meet unique conditions of a particular area, such as flood plain districts.<sup>11</sup>

*c. Administration.*—To apply substantive requirements, every regulation needs an administrative apparatus. The originators of zoning anticipated a fairly simple administrative process. They thought of the zoning regulation as being largely "self-executing." After the formulation of the ordinance text and map by a local zoning commission and its adoption by the local governing body, most administrations would require only the services of a building official who would determine whether proposed construction complied with the requirements. This official was not expected to exercise discretion or sophisticated judgment. Rather, he was to apply the requirements to the letter. In the case of new construction, he was to compare the builder's plans with the requirements governing the particular land and either grant or deny a permit. Even today, this nondiscretionary permit process is at the heart of zoning administration.

Nevertheless, it was recognized from the outset that the permit process was not enough. Zoning statutes and regulations commonly provide for these additional kinds of administrative action:

**Appeals:** First is the appeal from a decision of the building official. The applicant may allege, for example, that the official has misinterpreted the ordinance or applied it arbitrarily. In most States, such appeals are taken to a local board of zoning appeals (or adjustment).

**Variances:** Because of special conditions, strict application of ordinance requirements sometimes causes hardship that is unnecessary to achievement of the public purposes of the ordinance. A lot may be oddly shaped, for example, or topography may be unusual. To alleviate these hardships, and also to safeguard the constitutionality of regulation where strict application of requirements would amount to a "taking" of land, zoning regulations have traditionally provided for "variances." The variance power, too, most often belongs to the board of appeals. To qualify for a lawful variance, the applicant is normally required to show that strict application of the rules would cause "un-

<sup>11</sup> Some of the special conditions are quite exotic. One ordinance, for example, established a "laboratory rodent" district, permitting the raising of mice for laboratory use.

necessary hardship" due to "unique circumstances."

**Special exceptions:** The third type of administrative decision is the "special exception" which has now grown to include many types of discretionary decisions bearing such names as "conditional uses" and "special-use permits." The zoning ordinance will list particular uses (e.g., airports or cemeteries or gas stations) and permit them only with some sort of discretionary review in each case. The review may be by the board of appeals or governing body (or sometimes by a planning commission or a zoning administrator). The ordinance may set up specific standards to guide the discretionary review. Often, however, standards are very general.

**Amendments:** Finally, the administrative apparatus of zoning includes a provision for changing the rules. It was foreseen from the outset that both the text and the map would occasionally become out of date, and provision was made for revision of both by the local governing body. Although statutes normally require notice and hearing, the amendment process is otherwise much the same as that used to amend other local laws. The vast majority of amendments are changes in the zoning map, commonly called "rezonings."

To assure that regulatory actions stay within the limits set by constitutions, statutes, and ordinances, zoning statutes further provide for review by the courts.

### (2) *The subdivision regulation*

While conventional zoning normally applies to individual lots, subdivision regulations govern the process by which those lots are created out of larger tracts.

#### a. *Regulated subjects.*—

**Site design and relationships:** Subdivision regulations typically seek to assure that subdivisions are appropriately related to their surroundings. Commonly, they require that the subdivision be consistent with a comprehensive plan for the area (e.g., by reserving land for proposed highways or parks). Requirements normally assure that utilities (local streets, sewers) tie into those located or planned for adjoining property. Other requirements are intended to assure that the subdivision itself is related to its own site and that it will work effectively. The widths of streets, the length of blocks, the size of lots, and the handling of frontage along major streets, are among commonly regulated subjects.

**Allocation of facilities cost—dedications and fees:** Second, subdivision regulations may contain provisions that effectively allocate costs of

public facilities between the subdivider and local taxpayers. Commonly, regulations require subdividers to dedicate land for streets and to install, at their own expense, a variety of public facilities to serve the development. These often include streets, sidewalks, storm and sanitary sewers, and street lights. In recent years, more and more subdivision regulations have also been requiring subdividers to dedicate parkland, and sometimes school sites, or to make cash payments in lieu of such dedication. Some regulations go further still, requiring payment of fees to apply toward such major public costs as the construction of sewage disposal plants.

b. *Administration.*—Subdivision regulations contemplate a more sophisticated administrative process than do conventional zoning regulations. Instead of prescribing the precise location of future lot lines, for example, subdivision regulations provide more general design standards (based in part on local plans). The local planning commission or governing body then applies these standards, at the time of subdivision, to preliminary and final plats submitted by property owners.

### THE NATURE AND EVOLUTION OF CONVENTIONAL REGULATIONS

Considering the era of its birth, the pattern of land-use regulations devised in the 1920's was a heroic if hesitant reassertion of public responsibility to guide development. The nature of the regulatory pattern, of course, responded to the needs of that time, to the objectives then determined, and to the techniques then available for achieving them.

#### (1) *Characteristics*

From today's standpoint, the following characteristics of that pattern seem especially noteworthy:

a. *Responsibility: Local.*—Regulatory power was given to local governments. Although State enabling legislation prescribed the general nature of the regulations and established the administrative process, regulatory initiative and discretion were local. Regulations responded to local policies and were administered by local officials.

b. *Technique: Self-executing, noncompensative, negative.*—Like the building and other codes whose form they resembled, these regulations were self-executing, noncompensative, negative.

**Self-executing:** The detailed zoning requirements—down to the last zone boundary and side-yard width—were to be determined in advance. (Subdivision regulations, as already noted, established both specific requirements



and more general standards to be applied to the facts of each individual case.) Once adopted, the zoning ordinance was to be basically self-enforcing. Provisions for administrative relief and rezoning were thought of more as occasional adjustments than as parts of the day-to-day regulatory process.

**Noncompensative:** The regulations did not provide for compensation to property owners. Affected property remained in private ownership, and regulatory limitations on its use were authorized under the State's police power to protect the public health, safety, and welfare. This approach had the advantage of resembling established codes. It also saved public funds and avoided the administrative complexity of purchasing or condemning interests in affected property.

**Negative:** The role of the regulating government was essentially negative. Similar in concept to the law of nuisance, regulations were normally intended to prohibit inappropriate development—to keep out the bad rather than to achieve the good. Development initiative was left with private builders.

**c. Policy: Limited control.**—Finally, most early regulations were remarkably lax by today's standards. Even in the most restrictive residential district, some early regulations prohibited only a handful of specified commercial and industrial uses, and many district regulations provided neighborhoods only minimal protection against incompatible intrusions. Permissiveness was revealed even more clearly by zoning maps. Substantial areas in some communities were placed in unrestricted districts, in which all uses were allowed. "Overzoning"—particularly for business and industry—was the rule rather than the exception. Out of local optimism, an absence of planning, and a concern not to depress speculative property values, came zoning maps in many towns that provided for development beyond the dreams of land promoters.

## (2) *Causes of the conventional pattern*

Why did the pattern take this form? In large part because it was based on the building codes and tenement house laws for which there was both political and legal precedent. At the time, regulations were considered by many to be a radical encroachment on the rights of owners to exploit their property. Precedent was important.

From today's perspective, however, three additional influences seem to have been particularly important in shaping the zoning response: (1) the generally limited objective of preventing change within established neighborhoods, rather than achieving broader planning objec-

tives; (2) the small scale of land developments; and (3) the inherent problem of achieving varied development with "uniform" regulations.

**a. Preventing change in established residential neighborhoods.**—The primary demand behind zoning in thousands of communities was to protect established neighborhoods—especially residential ones—from the intrusion of incompatible uses. Zoning in these situations was intended more to prevent change than to guide it. The location of residential districts on zoning maps could largely reflect established development patterns. And the lists of permitted uses and bulk standard could largely be derived from what was already on the ground and from what was traditionally considered compatible with what was on the ground. In effect, regulations for this purpose could follow the broad directions already established by the market.

**b. The small scale of land development.**—A second influential factor was the small scale of landownership and land development at the time. This small scale meant that regulation of relationships among land *uses* required regulation of relationships among land *users* as well.

Conventional zoning regulations apply to each individual lot, not to a block or a neighborhood or a town as a whole. Lots are normally in separate ownership after development. When zoning was devised, they were also normally in separate ownership *before* development.

In the 1920's, when zoning became prevalent, the small scale of ownership and development had to be accepted. Builders were unable to build 1,000 houses at a time or a whole "new town"; they often built one house at a time or three or four. And the owner of a single small lot was almost wholly dependent on his neighbors for his environment—a dependence which was increased by the American tradition of using yards rather than walls as dividers between residential properties. The buyers and sellers of lots needed some device to stabilize property values, keep out unwanted intrusions, encourage investment in land and construction—in sum to assure neighborhood "character." The fee simple land tenure, which gives owners a freedom of use that modern homeowners are frightened to have their neighbors possess, did not provide the needed protection. Zoning did.

**c. Achieving variety with uniform regulations.**—A third influential factor, accentuated by the small scale of ownership and development, was the inherent regulatory problem of permitting varied development with "uniform" regulations. Cities, neighborhoods, even blocks, are mixtures of disparate activities and buildings, each normally on a separately owned lot.

Any attempt to control the mixture requires regulations that differ from lot to lot. Yet our traditions and laws called for public action to be uniform, equitable, "fair." In practice, this meant that regulations should *not* differ from lot to lot, should treat all owners alike if their properties were physically alike. This demand for uniformity of regulation was strongly reinforced by demands of administrative convenience.

Without reconciling the conflict between demands for unique treatment and demands for uniformity, zoning attempted a practical compromise. The regulations established a number of different zones and then mixed the zones on the map. The demands of uniformity were partially satisfied by the uniformity of regulation within each zone. The price of this uniformity was a significant oversimplification of the complex potential relationships among buildings and activities within small areas. Some areas were overprotected, many others not protected enough; demands for more refined regulation—and particularly for variances and amendments to permit "harmless" prohibited development—naturally emerged. Moreover, zoning still required gross differences in treatment of land in different zones. Although these differences were relatively inoffensive when based primarily on established development patterns, the very existence of the regulatory differences added to the special pressures on zoning administration. When regulations caused vast differences in land values, these pressures detracted both from the effectiveness and the fairness of regulations.

### (3) *Evolution of the regulatory pattern*

Although today's regulations still normally resemble those of the 1920's in some respects, many also show marked differences from the early pattern. Regulatory techniques have been substantially refined, and standards have been generally raised. Objectives have become more ambitious, particularly where the old negativism has given way to the view that regulations should be part of a process to guide development affirmatively toward desired public objectives. And both techniques and objectives have been adapted to changes in the process of city building itself, particularly to the increased scale and pace of change since World War II.

a. *Refinement of regulatory techniques.*—One direction of change has been toward refinement of regulatory techniques. Among the many common examples of such refinement are these:

Specification of permitted uses: Instead of listing prohibited uses in each district, as the

oldest ordinances did, regulations now normally list uses permitted in each district and prohibit all others. This plugs loopholes and establishes more clearly the intent of the regulations to guide development affirmatively in desired directions.

Noncumulative regulations: Old zoning ordinances set up a kind of use pyramid. Residences were "highest," businesses next, and industry was at the bottom. Each district permitted all the "higher" uses but excluded the "lower" ones. Thus, while industry was prohibited in residence zones, residences were permitted in industrial zones. Recent ordinances, however, attempting to assure that land is put to its planned use are much more likely to prohibit residences in industrialized zones as well as *vice versa*.<sup>12</sup>

More districts: Another sign of increasing refinement of control is the ever-increasing number of districts. A small suburban community that may have had half a dozen districts 30 years ago may have several times that many today.

More subjects regulated: There is a tendency to regulate more characteristics of development. Landscaping and screening provisions, for example, are now common. Many community regulations reflect public concern about such diverse matters as the appearance of buildings, the economic compatibility of the uses permitted in business areas, or the unwelcome glare from lights in parking lots.

Performance standards: Finally, a number of regulations contain performance standards. Performance standards fashion regulations more precisely to public objectives than do traditional or conventional regulations. Industrial performance standards, for example, may establish odor limits instead of prohibiting all paint plants. Performance standards hold great promise wherever the regulatory purpose is clear, where a standard can be precisely determined, and where compliance with it can be objectively and easily measured. Nevertheless, standards of this type are not even potentially available to govern many of the most important land-use relationships; there are simply too many purposes to be weighed in each situation and too many that defy objective measurement.

b. *More restrictive requirements.*—Another widespread tendency of recent regulations has been toward increased restrictiveness. In part, this has stemmed from greater public acceptance of land use regulations. Particularly in

<sup>12</sup> A Commission survey of local governments shows that in 1967, some 70 percent of local zoning ordinances contained at least one exclusively commercial or exclusively industrial zone. Larger governments and governments within metropolitan areas are more likely to have such zones than are smaller nonmetropolitan jurisdictions. See Manvel, Commission Research Report No. 6.



well-to-do suburban communities, newer regulations are likely to remove some of the undeveloped "strip commercial" zoning that characterizes so many regulations. Sign regulations may be tightened up. Much higher standards may be established to achieve quality development in commercial and industrial areas.

The most dramatic increase in restrictiveness has been a widespread reduction of permitted residential densities. In recent years, communities across the Nation have amended their ordinances to require larger and larger lots. "Acreage" zoning, the extreme situation, is now common, and lot sizes in community after community are being raised across the board.

The objectives of these density restrictions vary from place to place and time to time. Because real objectives are sometimes unspoken, it is often difficult to know which ones predominate in any particular situation. All of the following are important:

*First*, is a disturbing group of exclusionary objectives, discussed in detail later in this chapter. For a variety of reasons, citizens of some communities want to prevent as much development as possible for as long as possible, or to increase development cost to provide locations for people who choose low-density living, or to prevent people of low or moderate income from being able to afford homes in the community.

*Second*, density restrictions often represent a simple desire to raise development quality or carry out conventional local plans. When detached houses are built on the narrow lots permitted by many regulations, there is little space for adequate side yards. As houses increase in size, space for yards is smaller still. The intent of many regulations is, in effect, to assure adequate space between detached dwellings in the interest of privacy, amenity, and compatibility.

Even the 1- and 2-acre zones that fill so many zoning maps may simply express a municipal intention that the land be developed for 1- and 2-acre lots (perhaps coupled with a hope that no building will occur). Such requirements may be intended to carry out a community plan that designates locations for various development intensities. Essentially they may carry out community policy relating to development timing—channeling development pressures of today into higher density areas elsewhere in the community with the intent of changing the zoning later, after those areas are developed. In each case, density regulations can be an essential adjunct of plans for the location and timing of public facilities.

*Third*, large-lot zones may be symptomatic of the "wait and see" regulatory approach, serving to assure that any future development receives

discretionary review by the municipality. (Indeed, large-lot zoning may achieve this result whether or not this was its original intent.) Large-lot zoning can effectively prevent economically attractive development until the municipality grants rezoning. When the owner applies for that rezoning, the municipality has an opportunity to look over the proposal and give it the broadest of discretionary review. Such a "wait and see" approach to regulation is now gaining acceptance very rapidly.

c. *Changes in administration: "Wait and see."*—The "wait and see" approach to regulations represents a change in the administrative procedure applied to proposed development. In place of the older "self-executing" regulations, the approach contemplates discretionary public review of development proposals shortly before development occurs. In essence, the traditional administrative process in zoning is giving way to the more general standards and administrative discretion traditional in subdivision regulations. The developer proposes, and the municipality disposes. Sometimes the process is guided by useful plans and standards, but often not. Increasing reliance on discretionary review may well represent a more fundamental change in land-use regulations than any changes in substantive requirements.

Many techniques are being used today to achieve a "wait and see" result:

The variance has always been available as a "wait and see" tool and has long been used as such. Another device is the "conditional use" or "special permit use," a use tentatively approved by the regulation but only if each applicant satisfies stated (but often meaninglessly vague) standards. Use of this technique has grown enormously during the past decade. In granting conditional use permits, as in the case of variances, the community may try to assure compatibility by imposing detailed conditions limiting bulk, prescribing location of curb cuts, limiting hours of operation, requiring erection of boundary fences, and the like.

The "floating zone" is another device, usually affecting a larger area than variances or special permit uses. The "floating zone" is described in the text of the regulations but is not put on the map until a developer applies for rezoning.

As noted above, *low density zoning* is an increasingly common "wait and see" device. The community obtains *de facto* control over land development by zoning undeveloped areas for very low densities and then waiting for landowners to seek a map change. The real decisions—perhaps in accordance with an approved plan or predated policies but more often not—

are then taken by the local governing body when each application for rezoning is filed.

*Conditional rezoning* is a related technique, through which the municipality grants rezoning but imposes specific conditions on future use of the rezoned land, either directly or by causing the owner to impose deed restrictions on his land. Like other discretionary decisions, conditional rezoning can provide the more particularized control of development that many communities now want, but it is easily abused if public objectives are unclear or unstated. Moreover, the practice is not always effective: present zoning statutes do not normally contemplate conditions on rezoning, and the community may later find them unlawful or otherwise impossible to enforce. Too often, applicants mislead local governing bodies by obtaining rezoning on the basis of commitments to use the rezoned property in a particular way—and then break the commitments. If conditions on rezoning are effective, they can stop this practice; if not, they can play into the hands of unscrupulous applicants.

*"Planned unit development"* is the name most frequently given to a group of "wait and see" techniques that have come into widespread use only during the last 5 years. These provisions are intended to permit greater flexibility of site design and greater freedom to combine building types and uses in ways that would be prohibited by the detailed predeterminations of traditional zoning. At a minimum, the provisions do two things. First, instead of the lot-by-lot requirements traditional in zoning, they apply some requirements to entire projects. Second, to assure that developers use their greater resulting freedom consistently with public objectives, the provisions require discretionary public review of proposed site plans or designs.

Under conventional zoning, for example, a builder of 1,000 dwelling units in a 250-acre residential development might be required to put every unit roughly in the middle of a quarter-acre lot. Under planned unit development, he might (or might not) still be limited to 1,000 dwelling units, but he would have greater freedom to vary lot sizes and building types in ways aimed at satisfying people with different tastes and needs. Under some provisions, he would be permitted to introduce limited commercial or other development as well.

The provisions are usually applicable only at the option of the developer, who is free to adhere to conventional zoning if he prefers. Properly applied, the provisions can combine zoning and subdivision control into a single administrative process.

Local provisions vary widely in form, content, even in name. Some provisions establish few, if any, substantive requirements even for the entire project, leaving great discretion to municipal authorities; others establish specific requirements (permitted uses, maximum density, and so on) for entire projects. Some provide for great flexibility in choosing building types, building locations and uses within projects; others provide for much less.

Why the growing reliance on "wait and see" provisions? Again, answers vary from place to place, but these are often important:

*First*, these provisions enable communities to relate their regulatory process more closely to the process of development. Especially in undeveloped areas, detailed decisionmaking can be postponed until the pertinent facts become available. Depending on how carefully general policies and requirements are determined in advance, this approach may carry out a plan or mark the absence of one.

*Second*, municipal discretion provides great opportunities to overcome some imperfections in the usual process used to achieve development that is compatible with its immediate surroundings. Most regulations rely essentially on probabilities to achieve such compatibility: regulations thus permit uses, buildings, densities and public facilities that will probably fit together properly. From the standpoint of development quality, such reliance on probabilities is a weakness of current regulations. Because the focus is on what will probably happen, regulation must often prohibit the good as well as the bad—or permit some bad as well as the good. (For example, such arbitrary standards as a limit of eight row houses in a row or a requirement for twenty-foot side yards may be salutary when dealing with usual low-quality design; but they also prohibit innovation—and would even prohibit some of the great urban designs of the past.) "Wait and see" provisions permit local reviewing agencies to exercise more refined, particularized control. Instead of having to be content with probabilities, they may consider all the special circumstances of the individual case—lot shape, traffic consequences, landscaping, sometimes even style of architecture, and many more.

*Third*, "wait and see" permits localities to obtain concessions that may be—or are feared to be—beyond local legal powers to demand directly. The concessions may have exclusionary objectives; these are discussed in the next section. They may be aimed at achieving particularized design control. Or they may involve land dedi-



cations—especially for parks and school sites, but also for street widening or other public uses: the developer “voluntarily” provides these in return for development permission.

In summary, land-use regulations in many communities have evolved in three directions, all aimed at achieving higher standards and more ambitious objectives. One direction is toward more detailed and refined text provisions. The second is toward more restrictive requirements, especially toward lower density. And the third, increasingly important, is toward more sophisticated administrative techniques, resembling those of traditional subdivision control more than traditional zoning. Where the evolution serves sound and carefully thought out public objectives, it is clearly desirable; indeed, it is to be encouraged in the many communities where it has not yet taken place. Nevertheless, the evolving regulations make increasing demands on the wisdom and integrity of local legislators and administrators. The central problem of land-use regulation today is how to achieve the ambitious objectives of these regulations without, in the process, sacrificing other essential public objectives. Of greatest concern to the Commission is how to achieve the legitimate objectives without misuse of the rules to raise housing costs and exclude the poor.

## THE GOVERNMENTAL FRAMEWORK FOR GUIDING DEVELOPMENT

### *Powers, expenditures, organization*

Today's land-use regulations are adopted and administered by local governments. Some 10,000 governments now exercise regulatory powers. Within metropolitan areas, 5,200 jurisdictions have zoning ordinances. Most of these jurisdictions are small, and many are hard-pressed financially—characteristics which affect both their ability to hire qualified professional employees and the nature of the objectives that the governments try to achieve through regulation.

### *The distribution of powers*

Land-use control powers have been delegated to localities in all of the States through zoning and planning enabling acts. During their relatively brief existence, such regulatory powers have become perhaps the most cherished of all local government activities. The extent to which local governments have made use of their authority is shown in tables 1 and 2.

The fragmentation of land-use control responsibility becomes especially important within standard metropolitan statistical areas, where many land-use concerns are properly re-

TABLE 1.—NUMBERS AND PERCENT DISTRIBUTION OF LOCAL GOVERNMENTS WITH PLANNING, ZONING, AND BUILDING REGULATION ACTIVITIES, 1968

Coverage group	Governments with—					
	Planning board	Zoning ordinance	Subdivision regulation	Building code	Housing code	Any building regulation <sup>1</sup>
Number of governments:						
Total <sup>2</sup> .....	10,717	9,595	8,086	8,344	4,904	14,088
Within SMSA's.....	4,963	5,199	4,509	4,527	2,780	6,264
Outside SMSA's.....	5,754	4,396	3,577	3,817	2,124	7,824
County governments.....	1,596	711	886	415	211	1,796
Municipalities.....	6,673	6,880	5,297	6,484	3,976	8,905
1960 population of 1,000 or more.....	6,167	6,140	4,894	5,770	3,470	7,827
Under 1,000 (in SMSA's).....	506	740	403	714	506	1,078
New England-type townships.....	2,448	2,004	1,903	1,445	717	3,387
1960 population of 1,000 or more.....	2,359	1,815	1,827	1,356	666	3,273
Under 1,000 (in SMSA's).....	89	89	76	89	51	114
Percent distribution:						
Total.....	100.0	100.0	100.0	100.0	100.0	100.0
Within SMSA's.....	46.3	54.2	55.8	54.3	56.7	44.5
Outside SMSA's.....	53.7	45.8	44.2	45.7	43.3	55.5
County governments.....	14.9	7.4	11.0	4.9	4.3	12.7
Municipalities.....	62.3	71.7	65.5	77.7	81.1	63.2
1960 population of 1,000 or more.....	57.5	64.0	60.5	69.2	70.8	55.6
Under 1,000 (in SMSA's).....	4.7	7.7	5.0	8.6	10.3	7.7
New England-type townships.....	22.8	19.8	23.5	17.3	14.6	24.0
1960 population of 1,000 or more.....	22.0	18.9	22.6	16.3	13.6	23.2
Under 1,000 (in SMSA's).....	.8	.9	.9	1.1	1.0	.8

<sup>1</sup> These figures cover units reporting any of the other specified types of activity or a local building-permit system.

<sup>2</sup> The “total” relates to governments subject to sample survey representation, and thus omits (a) all municipalities and townships of less than 1,000 population

located outside of SMSA's; and (b) township governments located in States where these governments lack municipal-type powers.

Source: “Local Land and Building Regulation,” by Allen D. Manvel, National Commission on Urban Problems, Research Report No. 6

TABLE 2.—PROPORTION OF GOVERNMENTS WITH PLANNING ZONING, AND BUILDING REGULATION ACTIVITIES, BY SMSA LOCATION AND TYPE AND SIZE OF GOVERNMENT, 1968

Coverage group	Number of governments	Percent of governments with—					
		Planning board	Zoning ordinance	Subdivision regulation	Building code	Housing code	Any building regulation <sup>1</sup>
Total <sup>2</sup> .....	17,993	59.6	53.3	44.9	46.4	27.3	78.3
Within SMSA's.....	7,609	65.2	68.3	59.3	59.5	36.5	82.3
Outside SMSA's.....	10,384	55.4	42.3	34.4	36.8	20.5	75.3
County governments.....	3,049	52.3	23.3	29.1	13.6	6.9	58.9
Within SMSA's.....	404	80.0	49.3	62.9	39.4	18.6	86.1
Outside SMSA's.....	2,645	48.1	19.4	23.9	9.7	5.1	54.7
Municipalities.....	9,984	66.8	68.9	53.1	64.9	39.8	89.2
Within SMSA's.....	4,977	67.7	74.8	61.2	69.0	44.8	86.2
1960 population of—							
50,000 or more.....	314	98.4	98.7	92.7	98.7	85.3	100.0
5,000 to 49,999.....	1,303	92.9	97.0	90.0	91.8	53.3	99.9
Under 5,000.....	3,360	54.9	54.0	47.7	57.4	37.8	79.5
Outside SMSA's.....	5,007	66.0	63.0	45.0	60.9	34.8	92.2
1960 population of—							
5,000 to 49,999.....	1,352	91.8	90.5	81.9	73.5	54.4	98.4
1,000 to 4,999.....	3,675	56.5	52.9	31.3	51.3	27.6	89.3
New England-type townships.....	4,960	49.4	40.4	38.4	29.1	14.5	68.3
Within SMSA's.....	2,228	57.1	57.3	54.3	41.9	21.2	73.0
1960 population of—							
5,000 or more.....	765	79.1	81.0	74.0	58.7	22.7	91.5
Under 5,000.....	1,463	45.7	44.8	44.0	33.5	20.4	63.3
Outside SMSA's.....	2,732	43.0	26.6	25.4	18.7	8.9	64.4
1960 population of—							
5,000 or more.....	333	79.3	73.9	72.7	52.9	16.2	84.4
1,000 to 4,999.....	2,399	37.9	20.1	18.8	15.2	7.9	69.4

<sup>1</sup> These figures cover units reporting any of the other specified types of activity or a local building-permit system.

<sup>2</sup> The "total" relates to governments subject to sample survey representation, and thus omits (a) all municipalities and townships of less than 1,000 population

located outside of SMSA's; and (b) township governments located in States where these governments lack municipal-type powers.

Source: "Local Land and Building Regulation," Allen D. Manvel, Commission Research Report No. 6.

gional in scope. As table 2 shows, of the 7,609 local governments within SMSA's, nearly 5,200 (68 percent) have a zoning ordinance in force. The degree of balkanization within metropolitan areas becomes more apparent when specific areas are considered. In the San Francisco metropolitan area, for example, 100 localities are presently exercising zoning powers. In Cuyahoga County, one of four counties in the Cleveland metropolitan area, 61 jurisdictions have zoning ordinances. In Metropolitan Philadelphia, where there are 238 cities, boroughs, and townships, nearly 200 have zoning ordinances.<sup>13</sup> In Chicago's Cook County, more than 112 of the 129 localities have zoning, and within the New York area, as defined by the Regional Plan Association, more than 500 jurisdictions are exercising zoning power.

With only a few exceptions, localities enjoy almost complete autonomy in their exercise of land-use regulatory powers. The most notable exception is Hawaii, where the State plays a major role. Under the Hawaii system, all land is first zoned by the State into one of four zones: urban, agricultural, conservation, or rural. Counties may then adopt detailed zoning

regulations to apply within each district. Even where metropolitan governments have come into existence, land-use control powers have not been completely taken over by the regional government. In Miami-Dade County, for example, the metropolitan government has zoning authority only in unincorporated territory. In Nashville-Davidson County, several small suburban municipalities continued in existence after the creation of the metropolitan government and retained their zoning powers.

A number of States apply land-use controls in connection with functional problems. Among the many examples of such State control activity are the following: In Iowa, Wisconsin, and Rhode Island, State agencies may zone flood plains and wetlands; in Kansas and Oklahoma, the State may zone around Capitol buildings and certain hospitals; and in Maryland, West Virginia, Florida, and North Carolina, there are State laws that limit land-use in some areas or directly zone designated towns.<sup>14</sup>

Other variations on local autonomy in the exercise of land-use controls include extrater-

<sup>13</sup> Between 1946 and 1956, an average of one new municipality a month in the Philadelphia area adopted a zoning ordinance.

<sup>14</sup> See Solberg, "Experiences with Rural Zoning," address at a conference sponsored by the Bureau of Municipal Research and Service, Eugene, Oregon, September 14-15, 1967, as discussed in Coke and Gargan, *Localism in Land Use Planning and Control in Metropolitan Areas*, 1968, a report prepared for this Commission.



ritorial zoning powers, whereby a jurisdiction is permitted to zone a band of unincorporated territory lying beyond its boundaries. Twelve States permit municipalities to exercise such power for distances ranging from one-half to 5 miles around the jurisdiction.

Finally, some States authorize the review of certain local land-use decisions by a local agency of broader territorial jurisdiction, but normally such review is purely advisory. In Ohio, for example, county or regional planning commissions have authority to review township zoning resolutions, but disapproval of a resolution on review merely requires the township to hold a public hearing. In New York State, county disapproval of certain types of municipal zoning decisions affecting land within 500 feet of a State or county park or road can be overridden by a majority-plus-one vote of the local governing body.

Planning, like zoning, is also highly fragmented. Unlike the exercise of actual control powers, however, planning activity at the metropolitan level is increasing rapidly. There are now more than 400 metropolitan planning groups of various types throughout the Nation. Such agencies are largely impotent to effect any of their plans other than through persuasion, and indeed there is generally nothing to compel local plans, not to mention local controls, to conform to metropolitan plans.

Three Federal programs have been especially important in bringing about increased metropolitan planning activity:

*First*, the 701 planning assistance program<sup>15</sup> provides Federal matching grants to recognized metropolitan planning agencies.

*Second*, a 1962 amendment to the National Highway Act requires, as a condition for approval of funds for urban highways, that there be a "continuing comprehensive transportation planning process for the urban areas as a whole." The effect, not surprisingly, is that by the end of 1965, the transportation planning process was operating in every SMSA.

*Third*, section 204 of the Demonstration Cities and Metropolitan Development Act of 1966 provides that applications by local governments in metropolitan areas for certain types of HUD-administered grants must first be submitted to an areawide agency which is designated to perform metropolitan planning. Disapproval of the application by the metropolitan agency does not, however, mean that the grant will be denied. More than 200 metropolitan planning groups now qualify as review agencies under section 204. (Section 205, which provides for

supplementary grants to State and local governments where effective metropolitan planning and coordination of programs is in effect, provides an even stronger incentive for effective action toward achieving a metropolitan approach. Section 205, however, has never been funded by the Congress.)

#### *Expenditures and employment*

Land-use planning and control have become major activities of local governments, especially in metropolitan areas. In 1967, local governments (excluding the smallest units—less than 1,000—outside of metropolitan areas) spent a total of almost \$300 million on planning, zoning, and building code activities, and employed nearly 52,000 full- and part-time employees. Local governments within SMSA's accounted for 86 percent of total expenditures and 72 percent of total employees. These governments spent \$2.16 per capita as compared with \$0.70 per capita by governments outside of SMSA's, or three times as much.

Salaries for persons engaged in these activities tend to be low. Professional and technical employees in municipalities<sup>16</sup> of more than 5,000 population were receiving an average annual salary of \$9,072 by the end of 1967. Among those jurisdictions within SMSA's, the average was \$9,564, and \$8,256 in jurisdictions of less than 50,000 persons. Outside SMSA's, the average was only \$6,732.

In 81 percent of *all* governments surveyed, the top annual salary for the highest paid full-time professional or technical employee in these activities was less than \$6,000 in 1967. Among municipalities with less than 1,000 population in SMSA's, 98 percent paid their highest salaried employee less than \$6,000. No metropolitan area municipalities of less than 10,000 population paid its top man as much as \$15,000, and 60 percent of such localities had no full-time employees whatever.

#### *Local government organization*

As described above, the formulation and administration of land-use controls involves several distinct bodies or agencies in the local government structure. The general organizational guidelines are set out in State enabling acts, which normally permit some variations at the discretion of the locality. The normal pattern calls for activities by a zoning board of appeals, planning board and by the jurisdiction's governing body. In addition, the opportunity for court review is provided.

Of the 4,067 municipalities having a population of 5,000 or more, 3,630 (nearly 90 percent)

<sup>15</sup> Section 701, *Housing Act of 1954*.

<sup>16</sup> "Municipality," as used in this chapter, includes New England-type townships.

TABLE 3.—LOCAL GOVERNMENT EXPENDITURE AND EMPLOYMENT FOR PLANNING, ZONING, AND BUILDING REGULATION ACTIVITIES, BY SMSA LOCATION AND TYPE AND SIZE OF GOVERNMENT, 1967

Coverage group	Expenditure, fiscal 1967			Employees engaged, December 1967				
	Amount in thousands	Percent	Per capita <sup>1</sup>	Total	Percent part time	Full-time equivalent employment		
						Number	Percent	Per 100,000 population <sup>1</sup>
Total.....	\$297,615	100.0	<sup>2</sup> \$1.66	51,698	39.9	32,773	100.0	<sup>2</sup> 18.3
Within SMSA's.....	254,988	85.7	<sup>2</sup> 2.16	37,423	28.2	28,083	85.7	<sup>2</sup> 23.8
Outside SMSA's.....	42,628	14.3	<sup>2</sup> .70	14,275	70.5	4,690	14.3	<sup>2</sup> 7.7
County governments.....	59,091	19.9	.46	7,233	( <sup>3</sup> )	5,949	18.2	4.6
Within SMSA's.....	47,822	16.1	.54	5,310	11.0	4,894	14.9	5.5
Outside SMSA's.....	11,269	3.8	.28	1,923	49.2	1,055	3.2	2.5
Municipalities.....	219,287	73.7	1.94	36,301	( <sup>3</sup> )	24,832	75.8	22.0
Within SMSA's.....	191,784	64.4	2.19	26,894	22.3	21,690	66.2	24.7
1960 population of—								
50,000 or more.....	147,540	49.6	2.31	17,157	3.6	16,712	51.0	26.2
5,000 to 49,999.....	37,720	12.7	1.95	6,208	( <sup>3</sup> )	4,351	13.3	22.5
Under 5,000.....	6,525	2.2	1.50	3,529	( <sup>3</sup> )	627	1.9	14.5
Outside SMSA's.....	27,503	10.4	1.08	9,407	69.6	3,142	9.6	12.4
1960 population of—								
5,000 or more.....	23,961	9.2	1.34	6,335	( <sup>3</sup> )	2,836	8.7	15.8
1,000 to 4,999.....	3,541	1.2	.48	3,072	( <sup>3</sup> )	306	.9	4.2
New England-type townships.....	19,210	6.5	.94	8,164	( <sup>3</sup> )	1,992	6.1	9.7
Within SMSA's.....	15,382	5.2	1.04	5,219	76.4	1,499	4.6	10.2
1960 population of—								
5,000 or more.....	14,611	4.9	1.17	2,926	( <sup>3</sup> )	1,474	4.5	11.8
Under 5,000.....	770	.3	.35	2,293	( <sup>3</sup> )	25	.1	1.1
Outside SMSA's.....	3,828	1.3	.65	2,945	87.1	493	1.5	8.4
1960 population of—								
5,000 or more.....	2,943	1.0	1.05	825	( <sup>3</sup> )	356	1.1	12.8
1,000 to 4,999.....	886	.3	.29	2,120	( <sup>3</sup> )	137	.4	4.6

<sup>1</sup> Except for totals (as indicated by footnote 2), based on 1960 population of the governments reporting such activities.

<sup>2</sup> Based on 1960 population totals, with SMSA's as defined in 1967.

<sup>3</sup> Not computed.

Source: "Local Land and Building Regulation," by Allen D. Manvel, Commission Research Report No. 6.

have planning boards (or commissions), and 3,310 have zoning boards of appeals.<sup>17</sup> The average membership on planning boards is seven or eight persons, as compared with five or six on zoning boards of appeals. Members of both bodies are appointed by the jurisdiction's chief executive and/or governing body and normally serve without pay.

#### *Exclusionary local land-use policies*

Part IV of this report deals in detail with problems of local government structure. As it points out, many of the most serious problems facing the Nation's cities are metropolitan in scope. Problems of air and water pollution, transportation, open space, solid waste disposal, housing, and employment do not end at municipal borders. At the same time, land-use controls, which are important factors in the creation and solution of such problems, are lodged in local governments with virtually no supervision by metropolitan or State agencies.

The constituency served by local officials making land-use decisions is quite different from

that of the metropolitan area as a whole, whose concerns are affected by those decisions. It is hardly suprising that the interests and desires of one small jurisdiction do not always conform to the needs of the larger area of which it is a part. It is understandable, for example, that local officials—and their constituents—may not want a regional waste disposal plant within their own borders. Indeed, many officials would prefer to have as little development as possible of any kind—to keep the community just as it is. The inevitability of regional development may be obvious; but, to local officials and their constituents, it may be equally obvious that much of it should be located somewhere else. Similarly, there may well be a recognition that low- and moderate-income families within the metropolitan area need to be housed somewhere; that they need to be housed within any given jurisdiction in the area is far less readily accepted.

The problem takes on momentous proportions when compounded by the reliance of local governments on the property tax as their major source of revenue. How land within their borders is used becomes not merely a question of

<sup>17</sup> It is, of course, possible for a local government to have a planning board even though it does not presently exercise zoning or subdivision control.



TABLE 4.—EMPLOYMENT AND PAYROLLS FOR PLANNING, ZONING, AND BUILDING REGULATION BY MUNICIPALITIES AND NEW ENGLAND-TYPE TOWNSHIPS OF 5,000 PLUS, DECEMBER 1967

Item	Total	Governments in SMSA's		Governments outside SMSA's	
		Total	Municipalities of 50,000 plus		All other
Number of employees:					
Total.....	33,451	26,291	17,156	9,135	12,560
Full-time.....	24,372	21,545	16,536	5,009	2,827
Part-time.....	9,079	4,746	620	4,126	4,333
Full-time equivalent (total) <sup>1</sup> .....	26,026	22,658	16,743	5,915	3,368
Professional and technical <sup>2</sup> .....	19,258	16,588	12,118	4,470	2,670
Other employees.....	6,768	6,070	4,625	1,445	698
Planning, zoning, and subdivision regulation.....	6,999	5,767	3,871	1,896	1,232
Professional and technical <sup>2</sup> .....	4,731	3,833	2,533	1,300	898
Other employees.....	2,268	1,934	1,338	596	334
Code administration, including inspection.....	19,027	16,891	12,872	4,019	2,136
Professional and technical <sup>2</sup> .....	14,527	12,755	9,585	3,170	1,772
Other employees.....	4,500	4,136	3,287	849	364
Monthly payroll (in thousands):					
Total.....	\$16,044	\$14,415	\$10,830	\$3,585	\$1,629
Planning, zoning, and subdivision regulation.....	4,535	3,909	2,797	1,112	626
Code administration, including inspection.....	11,509	10,506	8,033	2,473	1,003
Average monthly pay, full-time employees:					
Planning, zoning, and subdivision regulation:					
Professional and technical <sup>2</sup> .....	\$756	\$797	\$845	\$688	\$561
Other full-time employees.....	450	463	490	366	366
Code administration, including inspection:					
Professional and technical <sup>2</sup> .....	672	693	697	679	504
Other full-time employees.....	399	406	411	379	302
Percent of full-time equivalent employment:					
Total.....	100.0	100.0	100.0	100.0	100.0
Planning, zoning, and subdivision regulation.....	26.9	25.4	23.2	32.1	36.6
Professional and technical <sup>2</sup> .....	18.2	16.9	15.2	22.0	26.7
Other employees.....	8.7	8.5	8.0	10.1	9.9
Code administration, including inspection.....	73.1	74.5	77.2	68.0	63.4
Professional and technical <sup>2</sup> .....	55.8	56.3	57.5	53.6	52.6
Other employees.....	17.3	18.3	19.7	14.4	10.8

<sup>1</sup> Including full-time equivalent of part-time employees.<sup>2</sup> "Professional and technical" includes all inspection personnel.

Source: "Local Land and Building Regulation," Manvel, Research Report No. 6.

esthetic and social sensitivity, it is a matter of governmental solvency. Land-use controls have become a major weapon in the battle for ratables.

The game of "fiscal zoning" requires the players—i.e., zoning jurisdictions—to attract uses which add more in property taxes or local sales taxes than they require in expensive public services and to exclude uses which do not pay their own way. In essence, this means that jurisdictions are influenced to seek industrial and commercial uses and luxury housing and discourage or prohibit such uses as housing for low- and moderate-income persons.<sup>18</sup> A further refinement is the desire to exclude housing which attracts families with many children in favor of housing with no children or as few as

possible—all this because children require schools, the most significant expenditure item of local governments. Low-income housing is bad from a purely fiscal perspective because it does not add to the tax rolls the same amount of assessed value as luxury housing and because it often brings large families into a community. In addition, the families occupying such housing may require welfare and, it is widely believed, more of other services from the local government than higher income families require.

Of course, there are sometimes important nonfiscal policies behind certain types of exclusionary land-use decisions. "Undesirable" uses such as junkyards are not very attractive. "Undesirable" people—minority groups and the poor—would not "fit in." Indeed, for many suburban dwellers it was just such "undesirable" aspects of the city that drove them out; and for central city dwellers who have managed to find neighborhoods which satisfy them, it may

<sup>18</sup> The implications of this for job opportunities are obvious. In Part I there is a description of the growing disparity between new job locations, and especially blue-collar jobs, and the surplus labor force. Fiscal zoning would appear to contribute significantly to the problem.

TABLE 5.—ANNUAL SALARY RATES OF HIGHEST PAID FULL-TIME PROFESSIONAL OR TECHNICAL EMPLOYEES ENGAGED IN LOCAL PLANNING, ZONING, OR BUILDING REGULATION ACTIVITIES, BY TYPE AND SIZE OF GOVERNMENT, DECEMBER 1967

Coverage group (type of government and size by 1960 population)	Percent of governments that have such activities <sup>1</sup>					Percent of governments with full-time employees reporting a top rate of \$15,000 or more <sup>2</sup>				
	With any full-time employees	With no full-time employees	With top annual rate of \$15,000 or more	No such full-time employees, or top annual rate of less than 1—						
				\$15,000	\$12,000	\$9,000	\$7,200	\$6,000		
All governments.....	24	76	2	98	95	89	85	81	8	
Within SMSA's.....	32	68	4	96	90	82	77	73	12	
Counties.....	74	26	20	80	57	41	34	29	25	
Municipalities.....	34	66	4	96	90	81	76	72	12	
250,000 or more.....	100	-----	88	12	2	2	-----	-----	88	
50,000 to 249,999.....	98	2	31	69	31	7	4	2	31	
25,000 to 49,999.....	96	4	9	91	65	31	15	9	9	
10,000 to 24,999.....	77	23	5	95	81	57	42	35	7	
5,000 to 9,999.....	40	60	-----	100	98	87	75	65	-----	
2,500 to 4,999.....	20	80	-----	100	100	98	92	88	-----	
1,000 to 2,499.....	17	83	-----	100	100	97	97	95	-----	
Less than 1,000.....	2	98	-----	100	100	99	99	98	-----	
Townships.....	20	80	1	99	97	92	87	84	3	
25,000 or more.....	81	19	4	96	73	42	30	26	5	
10,000 to 24,999.....	56	44	2	98	96	82	61	47	4	
5,000 to 9,999.....	21	79	-----	100	97	97	95	92	-----	
2,500 to 4,999.....	3	97	-----	100	100	100	100	100	-----	
1,000 to 2,499.....	-----	100	-----	100	100	100	100	100	-----	
Less than 1,000.....	10	90	-----	100	100	100	100	100	-----	
Outside SMSA's.....	18	82	1	99	98	95	91	87	3	
Counties.....	20	80	2	98	96	90	86	83	8	
25,000 or more.....	40	60	5	95	89	78	71	65	11	
10,000 to 24,999.....	10	90	-----	100	100	95	93	92	-----	
Less than 10,000.....	4	96	-----	100	100	100	100	96	-----	
Municipalities.....	21	79	( <sup>3</sup> )	100	99	96	91	86	2	
25,000 to 49,999.....	94	6	5	95	75	46	22	14	5	
10,000 to 24,999.....	77	23	2	98	95	81	64	41	3	
5,000 to 9,999.....	36	64	-----	100	100	98	94	85	-----	
2,500 to 4,999.....	10	90	-----	100	100	100	96	95	-----	
1,000 to 2,499.....	4	96	-----	100	100	100	99	97	-----	
Townships.....	7	93	( <sup>3</sup> )	100	100	98	96	95	1	
25,000 or more.....	80	20	( <sup>3</sup> )	90	90	40	40	40	13	
10,000 to 24,999.....	65	35	-----	100	100	77	54	47	-----	
5,000 to 9,999.....	22	78	-----	100	100	96	93	86	-----	
2,500 to 4,999.....	8	92	-----	100	100	100	92	92	-----	
1,000 to 2,499.....	-----	100	-----	100	100	100	100	100	-----	

<sup>1</sup> Including percentages shown in second data column.<sup>2</sup> Based upon information for the units reporting such data; i.e., assuming for each coverage group the same proportions for all units having full-time employees as for the 94 percent of such units represented for which this information is available.<sup>3</sup> Less than 1/2 of 1 percent.

Source: "Local Land and Building Regulation," by Allen D. Manvel, Commission Research Rept. 6.

well be the absence of such "undesirables" that keeps them in.

Attracting industry and commerce in competition with neighboring jurisdictions is not new. Many localities have developed it into a fine art, using such magnetic devices as the issuance of municipal bonds to help private companies finance land acquisition and plant construction. The land-use control contribution is overzoning for such uses, which is common practice, or adoption of a permissive policy with respect to requests for rezonings and special exceptions for such uses. The exclusionary side of fiscal zoning takes a variety of forms which are considered below.

### Large-lot zoning

The most widely discussed form of exclusion is large-lot zoning, by which a jurisdiction attempts to limit development in substantial portions of its territory to single-family residences on very large lots. The actual effects of this practice are not easy to isolate. Many factors determine the price which a particular lot will command in the market. In a weak market,

large-lot zoning may make little difference, with a 4-acre tract selling for little more than a 2-acre tract, and both sizes providing sites for shacks. In a strong market, a change from a 4-acre minimum to a 2-acre minimum may not lower the price per lot since potential developers are concerned primarily with the number of units that can be built on a given tract and will bid up the price of the rezoned tract. Comparisons of different properties are difficult. A 2-acre lot may be more valuable than a 4-acre lot because of factors unrelated to size—location, topography, etc. Broad comparisons thus become extremely suspect. Nevertheless, it does appear that land prices per lot do diminish as minimum lot size is reduced, though usually not commensurately with the change in size. That is to say, a half-acre lot will cost less than a 1-acre lot, but will cost more than half the price. Table 6 gives figures for three suburban jurisdictions which serve to illustrate the point.

Even where prices per lot do not differ markedly from zone to zone, it does appear that large-lot zoning can have significant effects on the cost



TABLE 6.—PRICE OF VACANT LOTS BY RESIDENTIAL ZONING CATEGORY IN GREENWICH, CONN., ST. LOUIS COUNTY, MO., AND MONTGOMERY COUNTY, MD.

Zone	Minimum area per dwelling unit	Median sales price per lot
<b>Greenwich, Conn.:<sup>1</sup></b>		
R-A-4	4 acres	\$18,000
R-A-2	2 acres	19,700
R-A-1	1 acre	18,000
R-20	20,000 sq. ft.	12,500
R-12	12,000 sq. ft.	8,500
R-7	7,500 sq. ft.	8,000
R-6	7,500 sq. ft.	9,000
<b>St. Louis County, Mo.:<sup>2</sup></b>		
R-1	1 acre	5,000
R-2	15,000 sq. ft.	2,000
R-3	10,000 sq. ft.	1,500
R-4	7,500 sq. ft.	1,111
R-5	6,000 sq. ft.	800
<b>Montgomery County, Md.:<sup>3</sup></b>		
R-A	2 acres	18,000
R-E	40,000 sq. ft.	11,800
R-R	20,000 sq. ft.	7,650
R-15C	15,000 sq. ft.	5,400
R-90	9,000 sq. ft.	4,000
R-60	6,000 sq. ft.	3,600

<sup>1</sup> Based on actual sales in 1966.

<sup>2</sup> Based on interviews with local officials and developers.

<sup>3</sup> Based on actual sales in 1967, available selling prices in Lusk's Real Estate Directory for Montgomery County, 1967 edition, and interviews with real estate developers and appraisers.

Source: Study prepared for the Commission by Department of Urban Affairs, Urban Research Center, Hunter College of the City University of New York.

of housing. *First*, extensive large-lot zoning in a given area has the effect of substantially reducing the total amount of housing that can be accommodated. If demand for new housing is strong, this restriction of the supply of housing sites will increase residential land costs generally. Moreover, by limiting the amount of land for housing on smaller lots and multi-family units below that which the market demands, the prices for these sites may be increased.

*Second*, the increase in the total house-and-lot price may be greater than the increase in land price caused by large-lot zoning. Some builders will simply not build the same house on a large lot that they will on a smaller lot, believing that a larger house is necessary. Furthermore, many builders observe a rule of thumb that the price of a lot should be some specified percentage of the total price of house and lot, e.g., 20 percent. If such a rule is strictly observed, a \$1,000 increase in lot cost will result in a \$5,000 increase in the price of the finished house and lot.

*Third*, large-lot zoning generally results in added costs for land improvements. Depending on specific requirements in the zoning ordinance regarding lot width, the effect can be to increase significantly the required linear feet of streets, sidewalks, gutters, sewers and water lines. Table 7 suggests the magnitude of such added costs.

In some instances the fiscal objectives behind large-lot zoning are quite clear. In St. Louis County, for example, the Parkway School District has calculated that any home costing less than \$26,274 does not pay its own way in educational costs. On this basis, district officials op-

pose any change in zoning to permit lots of less than a quarter-acre, below which they believe housing costing less than this amount can be built.

But the motives for large-lot zoning are generally not clear-cut. Rather they are a mixture of fiscal and non-fiscal factors. Where a community does not wish to bear the cost of extending water and sewer lines beyond present development, it may limit new development to large lots so that it can be served by septic tanks and wells. Some communities think of large-lot zoning as a means of retarding development or preserving rural character or open space. And, in some instances, it is clearly viewed as a technique for keeping out "incompatible" people—lower-income groups and minorities.

Large-lot zoning is a common and widespread practice in many major metropolitan areas. Data are scarce, however, since few metropolitan planning agencies or other regional groups have attempted to make consolidated area zoning maps or compile data on the total zoning pattern in the area. A Commission survey shows that 25 percent of metropolitan area municipalities of 5,000-plus permit *no* single-family houses on lots of less than one-half acre. Of these same governments, 11 percent have some two-acre zoning; 20 percent have some one-to-two-acre zoning; 33 percent have some one-half-to-one-acre zoning; and more than 50 percent have some one-fourth-to-one-half-acre zoning.

In the New York metropolitan area (as defined by the Regional Plan Association), 90 percent of the vacant land zoned for single-family residences calls for lots of one-fourth acre or more, and two-thirds of this land is zoned for lots of at least one-half acre. For five of the counties in the metropolitan areas, the average lot size increased from 9,000 square feet in 1950 to 19,000 square feet in 1957. Major increases in the average size of building lots in these years

TABLE 7.—LAND IMPROVEMENT COSTS PER LOT BY RESIDENTIAL ZONING CATEGORY IN ST. LOUIS COUNTY, MO., AND MONTGOMERY COUNTY, MD.

Zone	Minimum area per dwelling unit	Average frontage per lot (feet)	Improvement cost per lot <sup>1</sup>
<b>St. Louis County, Mo.:</b>			
R-1	1 acre	125	\$4,375
R-2	15,000 sq. ft.	100	3,500
R-3	10,000 sq. ft.	80	2,800
R-4	7,500 sq. ft.	65	2,275
R-5	6,000 sq. ft.	55	1,925
<b>Montgomery County, Md.:</b>			
R-A	2 acres	150	5,250
R-E	40,000 sq. ft.	125	4,375
R-R	20,000 sq. ft.	100	3,500
R-150	15,000 sq. ft.	80	2,800
R-90	9,000 sq. ft.	75	2,625
R-60	6,000 sq. ft.	60	2,100

<sup>1</sup> Estimated locally at \$35 a foot of frontage.

Source: Study prepared for the Commission by Department of Urban Affairs, Urban Research Center, Hunter College of the City University of New York.

took place in Bergen County (7,674 square feet to 20,614) and in Westchester County (13,068 square feet to 24,955) and to a lesser extent elsewhere. Since 1960, major portions of Monmouth, Suffolk, and Orange Counties have been rezoned from one-fourth acre and one-eighth acre lots to one-half and 1-acre lots. The town of Brookhaven, in eastern Suffolk County, rezoned substantially all of its vacant land for one-half acre lots or larger; moreover, it appears quite possible that the town's remaining vacant land will be further rezoned to 1-acre lots or larger. The town of Riverhead, which is also in Suffolk County, recently rezoned its vacant land from one-fourth-acre to 1-acre lots.

In Connecticut, more than half of the vacant land zoned for residential use in the entire State is for lots of 1 to 2 acres. In Greenwich, Conn., a community of about 65,000 within mass-transit commuting distance of New York City, more than four-fifths of the total undeveloped area is zoned for minimum lots of 1 acre or more—39 percent for 4 acres, 25 percent for 2 acres, and 17½ percent for 1 acre.

In Cuyahoga County, which contains the city of Cleveland, 85,200 acres of vacant land are zoned for single-family residential use. Of this amount, only 28,425 acres, or 33 percent, are zoned for one-half acre or less; 42,225 acres, or 50 percent, are zoned for one-half to 1.9 acres minimum lot sizes; and 14,550 acres, or 17 percent, are zoned for 2 acres or more. Thus, 67 percent of the vacant land zoned for single-family development in the core county of the Cleveland SMSA is zoned for minimum lots of one-half acre or more. In outlying Geauga County, for example, 85 percent of the residentially zoned area requires lots of 1 acre or more.

#### *Exclusion of multiple dwellings*

Perhaps an even more important form of exclusionary zoning is the limitation of residential development to single-family houses. Again, motives are undoubtedly mixed. Apartments are viewed by many suburban dwellers as central city structures, having no place in the "pastoral" setting of suburbia. Apartment dwellers are sometimes stereotyped as transients who, not having the permanent ties to the community which homeownership provides, will not be sufficiently concerned about the community or their own residences. But fiscal motives are also present. There is a concern that apartments—especially those which have large units and thereby can accommodate large families—will not pay their way. Where low- or moderate-income units are involved, both fiscal and social concerns increase.

Multifamily housing units generally provide the best opportunities for housing persons of

low and moderate incomes. The rental nature of such housing, and the savings produced by spreading land costs over a greater number of units, place such housing within the means of many who could not afford new single-family houses. Furthermore, many of the publicly assisted housing programs are multifamily programs and depend on the existence of zoning for multifamily structures.

Most jurisdictions have some zoning for multifamily structures, and it appears that more suburban zoning jurisdictions are permitting them than in the past. A Commission survey shows that 87 percent of municipalities and New England-type townships of 5,000-plus have at least one district in which multifamily housing can be built. But the figure fails to reveal the way in which such zoning comes about. In many suburban jurisdictions zoning for multifamily housing occurs only through a piecemeal rezoning process. There is at any one time little undeveloped land available for multifamily construction. The price of land zoned for such purposes is thus inflated because of the uncertainty about the total amount of land that may become available. Of the undeveloped land zoned for residential purposes in the New York metropolitan area, for example, 99.2 percent is restricted to single-family dwellings.

#### *Minimum house size requirements*

The most blatant, though not most extensive, exclusionary practice takes the form of excluding housing which fails to contain a minimum floor area as set out in the zoning ordinance.<sup>19</sup> Such requirements raise the lower limit of construction costs, and thus can be the most direct and effective exclusionary tool. An extreme application of the technique is found in Bloomington, Minn., an affluent suburb of the Twin Cities. Bloomington imposes a 1,700-square-foot minimum floor area. At a square foot construction cost of \$15.82, the average for FHA Section 203 housing in the Minneapolis area in 1966, the smallest house permitted would require \$26,894.00 in construction costs alone.

Table 8 shows the results of the Commission's nationwide survey on minimum house size requirements.

<sup>19</sup> Such provisions are to be distinguished from minimum floor area requirements in housing codes. Housing codes provisions, applying both to new and existing housing, plainly purport to deal with minimum health and safety requirements and not with maintaining neighborhood character or property values. They are stated in terms of minimum floor area per occupant, and typically they are lower than the minimum requirements in zoning ordinances. The American Public Health Association model housing code, for example, requires that a dwelling unit have a minimum floor space (limited to habitable room areas) of 150 square feet for the first occupant and 100 square feet for each additional occupant.



TABLE 8.—PERCENT OF ZONING MUNICIPALITIES AND NEW ENGLAND-TYPE TOWNSHIPS OF 5,000-PLUS HAVING SELECTED MINIMUM FLOOR AREA REQUIREMENTS IN THEIR ZONING FOR 1-STORY, SINGLE-FAMILY HOUSES, BY SIZE, TYPE, AND LOCATION OF GOVERNMENT: 1967

Minimum floor area	All zoning governments	Within SMSA's					Outside SMSA's		
		Total	Municipalities		Townships		Total	Municipalities	Townships
			50,000 plus	5,000 to 49,999					
1,000 sq. ft. or more.....	7.6	8.8	6.5	11.4	4.8		5.8	4.5	12.2
800 to 999 sq. ft.....	13.5	17.5	5.5	17.7	23.1		7.4	5.1	18.7
600 to 799 sq. ft.....	15.8	17.6	9.7	12.3	32.4		13.0	13.4	11.0
Under 600 sq. ft.....	3.9	3.6	5.8	2.9	3.9		4.4	4.0	6.5
Applicable, but areas not reported <sup>1</sup> .....	4.4	4.6	1.0	6.0	3.7		3.9	3.8	4.9

<sup>1</sup> These governments had a minimum floor area requirement but did not specify its size in response to the survey.

Source: "Local Land and Building Regulation," Manvel, Research Report No. 6.

### *Exclusion of mobile homes*

Exact figures are not available on the extent to which mobile homes are excluded from zoning jurisdictions, but it appears that a large number of governments exclude them entirely or limit them to industrial and commercial areas. A study in 1964 showed that in New York State, of 237 zoning ordinances reviewed, over half excluded mobile homes either explicitly or by imposing minimums relating to floor area, height, or other factors which mobile homes could not meet. Only 82 communities permitted mobile homes on individual lots, as distinguished from mobile home parks; and in all but 12 of these communities such lots had to be in areas zoned for industrial or commercial uses. Only 11 communities permitted mobile home parks to locate in residentially zoned areas.

The exclusion of mobile homes in large part reflects a stereotyping of their appearance and of their occupants. Many see mobile homes as unattractive and occupied by people who do not take care of their homes or neighborhood. Such images are often derived from viewing mobile homes in the midst of industrial districts, to which they are so often relegated. Moreover, there are sometimes fiscal reasons for exclusion in addition to those generally applicable to housing which might accommodate low- and moderate-income families. In many areas mobile homes are not taxable as real property. And in some States they are not subject to local personal property taxes because of special State levies, the imposition of which may exempt them from local taxes. In New York State, mobile homes are taxable as real property, and the fiscal motive for exclusion is accordingly reduced. The high exclusion rate in New York may thus indicate an even greater amount of exclusion in other States.

### *Unnecessary high subdivision requirements*

Land improvement costs are becoming an increasingly important part of housing costs. Zoning, as discussed above, affects such costs by de-

determining the number of linear feet of various improvements which are required to serve a given house. Subdivision regulations determine the precise specifications of such improvements, as well as the amount of land within a subdivision which can actually be devoted to housing. The more expensive these requirements are the greater the cost of housing.

Subdivision regulations differ widely from locality to locality. By demanding higher quality improvements, a jurisdiction can effectively increase the cost of housing and thereby exclude a greater number of potential home buyers from the market.<sup>20</sup>

### *Administrative practices*

Some of the most effective devices for exclusion are not discoverable from a reading of zoning and subdivision ordinances. Where rezoning is, in effect, necessary for many projects or where apartment development requires a special exception (as it does in some suburban communities), officials have an opportunity to determine the intentions of each developer with some precision. How many bedrooms will the units in his apartment house contain? What will be the rent levels? To whom does he plan to rent or sell? "Unfavorable" answers in terms of the fiscal and social objectives of such officials do not necessarily mean that permission will be denied outright. They may, however, mean long delays, attempts to impose requirements concerning dedications of land and provision of facilities over and above those which are properly required under the subdivision ordinance, and the like.

One witness heard by the Commission in Philadelphia stated the problem this way:

Regulations are frequently written so that each apartment developer has to negotiate with the community in order to get in at all. He negotiates either to get a zoning amendment because there is no permitted area zoned for apartments in the community,

<sup>20</sup> A discussion of site improvement costs as they relate to other components of housing costs appears in Part V.

or he negotiates in order to get a special exception because the zoning ordinance does not permit apartments outright. In both cases the negotiation process is one of trying to bid up the price or cost of the apartment structure in order to limit the number of people who can come in at lower cost. \* \* \*

A subdivision ordinance was used as a club in Abington against a veterans' cooperative which had intended to build about 250 free-standing houses which conformed with the zoning ordinance. This was in the late 1950's. I was a member \* \* \*. It was an outright question of refusing to give the approval, and keeping the matter in the courts until the veterans' group broke up because they couldn't wait for housing.<sup>21</sup>

#### INSTITUTIONS FOR ENDING METROPOLITAN GOAL DISTORTION

Agencies for resolving the conflicts of regional and local goals do not exist in most metropolitan areas at the present time. The rapid growth of regional planning suggests a recognition by States and metropolitan areas that many problems do not lend themselves to purely local decisions. But the agencies which do such planning rarely have any implementation powers other than persuasion. Popularly elected regional bodies, which might undertake supervision of certain types of local decisions, do not exist; and the States themselves have thus far done little to assume responsibility in this area. The courts, then, are the only existing decisionmaking institution which might resolve some of these goal conflicts. But such resolution requires policy decisions of a type the judiciary usually declines to make.

Questions of exclusion, as distinguished from more technical planning aspects of the problems of localism, would seem to involve basic constitutional issues of the sort that courts decide. Where public action—land-use control—is used to exclude large numbers of persons from certain areas on the basis of economic status, size of family, or race, fundamental questions arise for a democratic society. Generally, however, the courts have refused to consider such questions in the context of land-use control cases. They continue to view such cases as largely matters of police power vs. private property rights, with no consideration of broader social implications or the rights of the non-parties—those that are excluded.

The reasons for this are complex. *First*, property law is among the most venerable branches of the common law, and traditional notions about how to approach cases involving such rights have shown considerable staying power. *Second*, the nature and importance of these issues has only recently begun to emerge. *Third*, the Supreme Court has refused to hear any

zoning case since *Nectow v. City of Cambridge*,<sup>22</sup> decided 40 years ago. Lower courts, lacking the leadership to see these cases in a broader perspective, often refuse to venture forth. *Fourth*, courts are reluctant to consider the motivations of public officials in arriving at particular decisions. This becomes especially important in the case of administrative practices aimed at exclusion. *Fifth*, the factual information needed to show significance of exclusionary practices simply does not exist in most areas, and the cost to a private litigant of obtaining it would prove prohibitive. As noted earlier, most metropolitan areas do not have consolidated zoning maps, showing the cumulative pattern of local zoning ordinances. More important, they do not have housing and site inventories showing the location, cost and types of housing which presently exist in the area and the sites (along with their zoning designations) which exist for future residential development. The litigant who seeks to challenge the zoning of a particular tract as exclusionary may encounter the argument that he has failed to show the absence of land zoned for the kind of development he wants elsewhere in the jurisdiction or the metropolitan area. The result of all these factors is that even some of the most outrageous exclusionary practices go unchecked by any institution outside the local government itself.

#### Directions

The problems of metropolitan goal distortion can be attacked by dealing with causes or with symptoms. In the long run, there is little doubt that the causes themselves must be faced and eliminated. Such an approach requires the restructuring of local governments within metropolitan areas, as discussed more fully in part IV, to make them responsible to a broader cross section of the urban population and to make effective coordination possible. Such units of government must be made fiscally sound, with less reliance on property taxes and with a greater assumption of expenses by the States, regional governments, and the Federal Government. So long as new development means increased fiscal woes, the incentive to exclude will remain.

The treatment of symptoms must begin immediately. Local governments cannot continue to disregard their responsibilities toward the metropolitan area. It is essential that some institution, other than the courts, be established to reconcile local conflicts and to assure that attempts to solve regional problems are not thwarted by the parochialism of individual jurisdictions within a metropolitan area.

<sup>21</sup> Testimony of Mr. Morton Lustig, *Hearings Before the National Commission on Urban Problems*, Volume 4, p. 343.

<sup>22</sup> 277 U.S. 183 (1928).



## TECHNIQUES FOR GUIDING URBAN DEVELOPMENT

Quite apart from problems of exclusionary local practices, major questions remain on how regulations are now performing—and may better perform—their primary role of guiding urban development toward desirable public objectives. Evaluation of current practice must begin with recognition of vast regional and local variations. In a small village, rudimentary regulations may not have changed significantly in 30 years. A few miles away, complex regulations may set high standards that are administered by sophisticated reviewers. And in either community, the real effect of the regulation may be determined by uneven or corrupt administration.

The Commission's evaluation of local practices has concentrated on the present directions of change. In some communities, of course, changes have not occurred: an outdated regulatory system may still be relied upon to cope with today's problems. Despite local and regional variations, however, the broad directions of regulatory evolution are clear. As noted previously, the tendencies are toward refinement of regulations, higher quality standards, and discretionary application of general standards to the particular facts in each case.

In the light of varying local objectives, it is necessary to propose a handful of very general objectives that regulatory systems are or should be trying to achieve. It is not the intent of the Commission to suggest detailed objectives for each community; local diversity makes this impractical. From a broad national perspective, however, it is reasonable to expect regulations to be directed toward achieving *quality* development, without needlessly increasing the *cost* of development, while at the same time assuring *fairness* to those affected by the system.

### *Quality of development*

Achieving quality development is the central goal toward which land use controls have usually been directed in the past and are primarily directed today. Quality is variously defined, of course. In one place, quality may be found in diversity, elsewhere in relative uniformity of development; in one place, the emphasis may be on preservation, elsewhere on renewal. There is ample room for varying local plans and policies to define what quality means under local circumstances.

The quality objective can be conveniently divided into three subsidiary objectives.

*First* is achievement of harmonious relationships within built-up blocks and neighborhoods. In many areas, this objective amounts to one of

protecting established neighborhood "character" against incompatible intrusions. Elsewhere, though, the need is to remove existing intrusions or to stimulate changes that will produce a desired character. In either case, such problems as noise, traffic, and ugliness may have virtually no impact on a whole community or region, but can determine whether or not a neighborhood is a good place to live.

*Second* is achievement of harmony in these small-scale relationships without enforced monotony. This objective is especially important in wholly new neighborhoods, both on the outskirts of the city and in renewal areas. Unlike built-up neighborhoods, where the problem is to work within the framework of existing development, new neighborhoods must seize the opportunity to create an interesting and varied new framework.

*Third* is the guidance of the timing, location, and nature of development that has community or regional impact. Guidance of development at this large scale presents quite different regulatory problems, and those problems have become acute because of the incredibly rapid and extensive development that has overtaken formerly rural areas in recent years.

### *Harmonious neighborhood-scale relationships*

First, then, land use regulations should be directed toward assuring harmony in the small-scale relationships that affect the livability of each block and neighborhood in built-up areas. Today, as in the earliest days of zoning, the dominant objective of regulations in many built-up areas is to prevent unwelcome and inappropriate change. In effect, if any building or rebuilding is to take place, the objective becomes one of preventing development that is "incompatible" with what is already there. Now, as in the past, zoning responds to this need by grouping compatible types of development together and listing them—activity types, densities, building types, building bulk—in the text of the regulations for each district.

a. *Problems of classifying "compatible" uses.*—The determination of compatibility in this fashion is not easy. The objectives of the classification are numerous, often conflicting, and seldom articulated. Often, they are best summed up as the protection of an existing or hoped-for area "character." The Standard State Zoning Enabling Act directed that regulations be made with reasonable consideration of "the character of the district" and with a view to "conserving the value of buildings." These are by no means the only stated purposes of zoning, but they go a long way toward explaining what many of its supporters like about it. After an

area is built up, and in the absence of some drastic change, the appropriate nature of new activities and buildings will be influenced—and often determined—by what is already there. In the case of side yards, for example, if everyone else has built a one-family house roughly in the middle of his lot, it may well seem to the neighbors that the “character” of the area warrants a requirement that newcomers to the block do roughly the same thing. And this remains so even if minimum quality standards for development could be met by smaller yards, or by development without any side yards at all.

The purpose of zoning becomes, in effect, to keep anyone from doing something on his lot that would make the neighborhood a less enjoyable place to live or make a buyer less willing to buy. In a neighborhood full of houses with 8-foot side yards, a regulation that accurately reflected the tastes of the residents would be likely to prohibit all activities but residences and all residences but those with 8-foot side yards. But in another area, where the houses have 15-foot side yards, 8 feet becomes “inadequate,” so the requirement is raised from 8 feet to 15 feet. There may be no suggestion that the 8 feet do not provide enough light or air or privacy; it is just that the “character” of the neighborhood is different.

In effect, regulations often serve to protect the environment that is probably the choice of most of the residents of a neighborhood. If the matter were put to a vote of the neighbors, it is likely that many of them would vote to have the regulations do just what they do. (Indeed, if anyone proposed to amend the regulations, many town councils would in effect put the matter to a vote by asking for a show of hands at the public hearing. And the Standard Act requires an extraordinary majority vote of the governing body to amend the regulations if owners of adjacent land file formal protests against the change.)

Protection of character covers many physical, social, economic, and psychological objectives that affect people's choices. The importance of appearance or “aesthetics” in the determination of “character” can hardly be overemphasized. Note, for example, the common regulation that increases the otherwise acceptable front yard depth when, say, 40 percent of the neighbors have voluntarily provided a bigger front yard on their lots.

Another classification problem arises because standards of compatibility vary from person to person. True, some regulatory purposes can be achieved by objective standards: performance standards can effectively separate smoky industries from nonsmoky industries, and the density of development can be limited by the traffic

capacity of local streets. But many classifications are not based primarily on physical characteristics, and these present more serious problems. For example, the nonconforming grocery store in a residence zone may be regarded by some as a convenience and by others as an unwelcome intrusion into the residential pattern. Some people find cemeteries pretty, especially those that are old or parklike; others find them depressing or frightening, and want them far away or at least out of sight behind a wall or a hill. Attitudes about compatibility may vary from block to block and from time to time. And they may vary depending on who is involved; the widow who has to take in boarders to make ends meet may find her activity more gently treated than the “new people” who try to do the same thing.

Perhaps the greatest classification problem, though, stems from the sheer number of factors that can influence compatibility—such matters as exact location, topography, the design of the site and the building, the location of automobile access points, maintenance, and details of operation (how late a store stays open at night, whether there is an exhaust filter on the pizza oven). Some of the details that determine compatibility may vary over time—the quiet little drugstore that used to close at 10:30 now stays open all night and sells a special ice cream concoction that attracts teenagers and their cars until the small hours. The nicely maintained gas station changes hands, and the new owner leaves tires lying around and hangs up fluttery pennants.

In sum, the attempt of zoning regulations to determine compatibility “once and for all” is an illusory hope for simplification. Classifications simply do not reflect all the complicated considerations that make people choose one environment over another. There are thus strong and continuing reasons to seek methods of improving the techniques used for these purposes.

In general, regulations do best when they are broadly attuned to market forces. It has been said that regulations are most likely to work when they compel 10 percent of landowners to do what the other 90 percent would do voluntarily.

b. *Protection of satisfactorily developed neighborhoods.*—Regulations still do their most effective job when they deal with the type of situation for which many of them were first intended; when the objective is to protect established character and when that established character is uniformly residential. It is in the “nice” neighborhoods, where the regulatory job is easiest, that regulations do their best job.

If zoning fails to function effectively, even in these situations, the problem often is lax admin-



istration rather than any inherent limitation in the technique. Such failure is particularly serious in so-called gray areas, older neighborhoods that are not slums but where signs of deterioration are beginning to show. Market demand for compatible development may not exist in these areas, and pressures develop to allow the introduction of formerly prohibited uses that often serve as blighting influences. Examples include junkyards, garages, filling stations, bars, liquor stores.

Gray areas seem to be especially vulnerable to these pressures. Where rapid transition is taking place in the population of an area, political influence and interest may be on the wane. Residents may lack the means and sophistication to insist on tight enforcement of regulations and to oppose requests for rezonings and variances. Persons anxious to move out may, in fact, encourage zoning changes to widen their potential market. With admission of a few of these uses, the floodgates open, pressure continues to mount, and the justification for resisting that pressure gradually disappears.<sup>23</sup>

c. *Provision for change of unsatisfactorily developed neighborhoods.*—In view of zoning's difficulties in protecting gray areas in the face of market pressures, it should come as no surprise that regulations seldom effect significant upgrading of deteriorating areas. Elimination of functionally incompatible nonconforming uses, for example, would significantly improve the environment in some sections of many cities, for these uses can not only blight their surroundings but can serve as "entering wedges" for further reduction of zoning bar-

riers. But, even in States where legal authority to remove such uses exists, little progress has been made. Since 1943, for example, an Illinois statute has authorized localities to order the removal of nonconforming uses "when they have reached the age fixed by the corporate authorities of the municipality as the normal useful life of such building or structure." But the authorization has rarely been used. In Chicago, where the established cutoff dates called for elimination of uses of certain properties in 1963 and 1967, the dates again were extended to 1969. Other examples are numerous.

In some deteriorated neighborhoods, the very concept of zoning seems irrelevant. This is true, for example, of many areas that are characterized by a kind of residential-industrial-commercial mix which present residents find unacceptable—the situation in many central city slums. The market is often unwilling to invest in these areas, and some of the development for which there is demand would merely worsen an already bad environment. The city must, therefore, strike a balance between protection and stimulation—protecting desirable features in the existing environment and forestalling further blight, while permitting and encouraging any new investment that can be attracted for desirable development.

This balance between stimulation and protection is hard to strike. Developers complain especially about density limitations which, they insist, make profitable new development impossible in many older areas of the city where land values may be high despite the poor quality of the neighborhood. If densities were increased, they argue, it would be economically possible to construct marketable housing and other facilities.<sup>24</sup>

In certain circumstances such claims may well be valid. But the neighborhoods in question are often densely populated already and severely lacking in open space and recreation areas. To permit increased densities in some of these areas would only compound the problems. Furthermore, new construction would cause displacements; and many former residents of the

<sup>23</sup> The Commission heard testimony in Houston on the advantages and disadvantages of zoning and the advisability of continuing the requirement of a zoning ordinance as part of the workable program. See *Hearings*, Volume 3. Houston is the largest city in the nation and the only one of over 250,000 population, without a zoning ordinance. Where regulation of land use exists in the city, it is by means of private deed restrictions. Enforcement of such restrictions is handled through private court actions, but an ordinance was passed in 1965 providing for city intervention in private suits brought to enforce such covenants.

It does appear, on the basis of testimony received at the Commission's hearing and discussions with knowledgeable persons in Houston, that many of the present restrictions are of limited duration, usually thirty years, and that especially in the older areas of the city these restrictions have expired or will expire in the near future. Expirations will presumably be most significant in poor neighborhoods and particularly in Negro neighborhoods, since these are in older sections of the city. Unless they are renewed, there is some danger that blight will spread in these neighborhoods by reason of a lack of controls. Furthermore, even where deed restrictions do exist in poorer neighborhoods, the knowledge and financial resources to enforce them may not be present. At the very least, private enforcement places greater relative burdens on the poor.

Even where zoning ordinances exist, it is in the poorer neighborhoods that the system breaks down most easily. Nevertheless, a public system of controls does appear to more equitably spread the burden of enforcement, and at least holds out hope for protecting the most vulnerable neighborhoods. As more effective community participation develops, the system should be strengthened.

The real test of the Houston system has not yet been met. After large numbers of deed restrictions expire, it remains to be seen what system of controls will be used.

<sup>24</sup> Off-street parking requirements, often the target of developers' complaints about their inability to build in the central city, also present difficult problems of balancing competing considerations. Many older buildings in central cities are nonconforming structures because they fail to provide the off-street parking areas required by zoning ordinances adopted after they were built. Any attempt by a developer to replace such buildings with new ones will mean that the parking requirements must be met. At present density limitations, the cost of providing the necessary parking area may well mean that even if the new building can command higher rents than the existing structure, the investment will not be economically possible. Such parking requirements, however, in addition to their role in coping with the city's transportation problems, often serve as effective and desired density limitations; and their removal will result in permitting increased densities. Moreover, their elimination will throw back onto the city the need to provide parking facilities—a cost which many hard-pressed cities are understandably not prepared to assume.

neighborhood would not be able to afford to return to the area after redevelopment.<sup>25</sup>

While land-use policies play a part in decisions about investing in built-up areas, their part is often very small. Other factors, which are generally far more important, include high tax rates, poor public services, unavailability of mortgage funds, and the whole range of urban woes which affect marketability—poor schools, crime, poverty, traffic congestion, and pollution.

d. *The edge of the highway.*—Protection of highway edges against garish commercial development, which reduces highway safety and efficiency and also creates perhaps the most persistent ugliness of our cities, must be singled out as an area in which regulations have generally failed completely. A remarkable proportion of recent court decisions on land-use matters has involved zoning along major streets and highways. Even “nice” residential neighborhoods are subject to the pressures for hot-dog stands and gas stations fronting on major streets, with each establishment trying to outdo its neighbors in demanding the attention of passersby. Far too often, the intensity of these pressures—coupled with local awareness that the roadside lots are hardly ideal spots for uses other than highway business—causes communities to buckle. Especially where property has been subdivided so that small lots open onto the highway, pressures for commercial development are often virtually irresistible. The results surround us.

#### *Varied and interesting new neighborhoods*

The second of the quality objectives of land-use regulations should be to assure that harmonious small-scale relationships are achieved without enforced monotony. Failure of zoning to achieve this objective—often as a result of its rigid and inflexible standards—has been the subject of zoning’s “new criticism,” which in recent years has been added to the perennial complaints that standards are too low and protection insufficient. The new critics, many of whom are developers and design professionals, point out that cities are mixtures and that harmonious mixture is not best achieved by segregating uses and building types. Often focusing their attention on new neighborhoods on the urban fringe and in renewal areas, they have particularly objected to regulations that require each lot to have a minimum size and prescribe restrictive yard requirements that limit variety in the placement of houses. The practical result,

they say, is too often monotony and uniformity, stifling opportunity for innovation and imaginative design.

Demands for freedom from rigid, lot-by-lot rules have been accentuated by a change in the scale of much new development. So long as development takes place on a lot-by-lot basis, regulations must be largely concerned with establishing rules to protect each lot owner. On the other hand, when development takes place in projects large enough to create their own environment, development need not be so tightly restricted. Here the developer can be freed of some detailed restrictions and allowed to create his own “character” of development, with his judgment of marketability guiding him in determining compatibility among various structures within the project.

The opportunities afforded by large-scale development do exist today. A significant amount of development is taking place at a scale of sufficient size to enjoy at least some of the advantages of unified neighborhood planning. Replies received in a recent survey of new towns, planned communities, and other large developments in urban fringe and rural areas show that 448 residential developments, each with 950 or more acres, have been completed or are now being built, and 29 more are planned. Of the 448 developments recently completed or now under way, 61 each involve 10,000 acres or more, and 72 will have 25,000 or more people. Three out of four of these developments were begun in 1960 or later.<sup>26</sup>

As we have noted earlier, regulations have begun to respond to these demands. Planned unit development provisions are particularly important for this purpose, since they apply some regulations to entire projects (rather than to each individual lot within each project) and rely on discretionary review of site plans to assure needed amenity.

Several conclusions emerge about the present and future role of controls in promoting interesting development:

*First*, few regulations effectively encourage, and too many effectively discourage, imaginative urban design. Far too often, it appears, current regulations reflect resignation to the poor quality of design. Instead of trying to achieve quality, they seek only a minimal compatibility among homes by permitting fewer of them and by requiring larger distances between them. Development is thus treated as a kind of “land pollution” to be diluted as much as possible.

<sup>25</sup> The urban renewal experience discussed in Part II suggests the magnitude of such problems.

<sup>26</sup> Jeanne M. Davis, *Survey of New Towns, Planned Communities and Other Large Developments in the United States*, Review Draft, Economic Research Service, U.S. Department of Agriculture, March 1968.



*Second*, planned unit development provisions, with their new emphasis on project design, are an important potential advance toward achieving both amenity and variety. Carefully drafted provisions should be widely and rapidly adopted by communities that have the skills and resources to administer them.

*Third*, planned unit development provisions are not a panacea and will not achieve their potential if they are badly drawn or administered. Regulations, after all, have not been the primary cause of the bad design that surrounds us. Unimaginative developers have built many subdivisions that are far, far less interesting than they could have been under applicable regulations, and for years there was little complaint about the stifling of design. Changed market conditions and growing public awareness of design have given rise to recent complaints by developers, and these in turn have resulted in more flexible regulations. If misapplied, however, the new flexibility can amount to little more than a lowering of desirable amenity standards. Even if regulations permit good design, they can hardly assure it unless public objectives are clear and unless both the developer and the regulating governments employ competent professionals to prepare and review proposed design. Too often, these conditions simply are not being met.

*Fourth*, planned unit development provisions should not, therefore, be given a prominent place in the regulatory structure of any community unless *both* the developers and the public are represented by qualified design professionals. Since much of today's bad design does stem from low-quality designs submitted by developers, and since it is unrealistic to expect any review process to remedy a fundamentally unsound private job, the need is to permit and encourage quality work in the private sector. On the public side, there is also a clear need for competent professional reviewers to assure that relaxation of rigid requirements produces better development rather than worse.

*Fifth*, even with professionals on both sides, regulations should normally retain some specific standards to impose outer limits on the administrators' discretion. Two types of standards are of particular importance:

(a) Standards to assure that proposed development as a whole has an acceptable relationship to its surroundings. In particular, some limitation on density or intensity of use will normally be essential so that the community can plan the construction of major public facilities to serve it.

(b) Standards that have major impact on the value of the land involved. Insofar as regulations can predetermine the general intensity of

development and the extent of high-value uses permitted, administrative bargaining over value-affecting matters can be reduced. Even though value consequences cannot be eliminated altogether, any reduction of the tensions of the bargaining process is a step in the right direction.

#### *Zoning under sound regional development*

Regulations should be directed toward achieving development quality by guiding the timing, nature, and location of development that determines the character and form of whole communities and regions. To achieve this objective, regulations must deal with significantly different kinds of questions from those that govern neighborhood relationships. Guiding the development of a region's employment or commercial facilities, for example, requires different techniques of analysis and implementation from those needed to deal with most of the questions that have impact only within a single block.

Regulations are being criticized for their failure to guide development effectively at this scale, and particularly for their failure to prevent "urban sprawl." Critics point to the process of "leapfrogging," whereby development jumps over expensive vacant land at the immediate urban fringe or within developed areas in favor of cheaper land farther out. The result is that utility lines and facilities must be extended at additional public cost; and, because of unpredictability, the timing of construction of those facilities cannot be intelligently planned by the community. Moreover, the development of enormous areas often occurs without any assurance that the sum of individual projects will, in the future even if not at present, form a coherent community in which people will enjoy living. And the leapfrogging itself limits opportunities to create such communities later; areas are too often characterized by the development that jumps in first.<sup>27</sup>

It is not the Commission's intention to propose a single, optimum urban form as an alternative to sprawl. We do not, for example, suggest that every city should be laid out in radial corridors or in any other of the particular forms that regional planning agencies discuss. It could hardly be clearer, however, that public action

<sup>27</sup> A 1967 study by the Howard County (Maryland) Planning Commission indicated the cost implications of various development patterns. Howard County is the site of the new town of Columbia, and the Planning Commission sought to estimate the total development costs, assuming several different patterns of development.

The study estimated that total development costs—including structure, utilities and open space—would be almost twice as large (\$337,000,000) for traditional development as for all "planned" development (\$170,000,000). Planned development would save \$33 million in water utilities and \$45 million in sewer utilities alone. *Howard County 1985*, Technical Report No. 1.

is needed to guide development at the community and regional scale into coherent patterns. Few would deny the usefulness of foresight to determine and protect areas that should remain open, areas to serve as focal points for intensive activity, and major corridors for the movement of people and goods. Today, nearly all governments concede an obligation to keep down public costs, and more and more are recognizing an obligation to act affirmatively for a quality environment.

Increasingly in recent years, regulations have been formulated with an awareness of need for public action to curb sprawl. The response has not, by and large, been successful. Regulations are not providing effective guidance of region-shaping development. Some of the reasons for failure are these:

(a) *Lack of government at the right scale.*—One important reason for the lack of accomplishment appears to be the absence of a government of the right size to do the job, coupled with the inability and unwillingness of small local governments to do the job themselves. The problems of government structure and finance, discussed elsewhere, lie at the heart of these difficulties.

(b) *Lack of plans and policies.*—A second reason is the common failure of public officials to prepare and articulate, in meaningful detail, the plans and policies needed to furnish a basis for regulations and for other development guidance measures.

For decades, efforts to articulate objectives have focused on local plans. The Standard State Zoning Enabling Act required that regulations be "in accordance with a comprehensive plan." Although the intent of the statutory "comprehensive plan" requirement has long been debated, there remains a fundamental planners' tenet that regulations should be tools to implement a community plan. And in recent years, in response to increasing development problems and the availability of Federal financial aid, more and more communities have prepared general plans, some of which are relied upon as a guide to governmental and private action.<sup>28</sup>

Nevertheless, it could hardly be clearer that formal plans are not furnishing a unifying basis for most local regulations and other needed development guidance measures. Many communities regulate without meaningful plans. Some of those that do have plans pay little attention to them in making regulatory decisions. Still others find that plans provide little guidance in an-

swering many regulatory questions. In any event, the failure to formulate guiding policies precludes effective development guidance. A number of reasons may be assigned for this failure.

First, there is continuing ambivalence in many communities about the proper role of government in guiding development. The ideology of unfettered free enterprise runs head-on into the desire of individuals to protect their neighborhoods and communities from the results of that unfettered freedom. This clash, of course, occurs in many zoning contexts, not just in dealing with regional issues. We have seen that the desire to protect residential neighborhoods is often so strong that ideology loses out. Nevertheless, the ambivalence is often especially pronounced when the community faces major questions that affect large undeveloped areas. As we have seen, a combination of social and economic factors may make a town willing to adopt stringent restraints against intrusion of new development. Yet the same town may hesitate to plan affirmatively for the timing or location or character of the development that it does allow; strangely, such an exercise of public initiative often seems more of an interference with the market than does a total development prohibition. Often the ambivalence expresses itself in actions that are inconsistent from place to place or time to time; large-lot zoning here today, apartments there tomorrow. Sometimes the city council takes one view, the board of appeals another. In sum, willingness to regulate, particularly to protect established "character," does not necessarily imply a willingness to plan affirmatively for future changes, and this unwillingness is particularly devastating in dealing with the major developments where public agencies can achieve their objectives only by leading, not by following the market.

If unwillingness to plan is one source of difficulty, inability to plan is another. Proper planning requires time and money and staff, and many localities lack these. Moreover too many unimaginative leaders fail even to perceive the problems that would warrant allocation of scarce resources to planning.

Finally, far too many plans do not answer enough of the questions that must be answered before development can be guided effectively. In particular, too many plans concentrate on a desired end result without explaining why the result is desirable or how it can be achieved. Many plans, especially older ones, are little more than maps of desired future land use. Indeed, some of the originators of regulations insisted that was all that plans should be. Without an explanation of the thinking behind the map,

<sup>28</sup> Among the 4,067 municipalities of more than 5,000 population, more than 2,700 have published "master" plans, of which 77 percent have published such plans since 1960. Of these same governments, 3,664 have zoning ordinances. See Commission Research Report No. 6.



communities are hard-pressed to apply it intelligently when developers propose that, under today's conditions, a particular site might better be used for something else. When plans do not provide an indication of why and how they should be implemented, it is not surprising that public officials lack confidence in plan conclusions or find them simply irrelevant in reaching the day-to-day decisions that build and change cities.

*c. Lack of effective implementation techniques at this scale.*—Finally, in addition to difficulties in making policy to guide change at community or regional scale, there are difficulties in adapting regulations to carry out such policy. Regulations designed for these purposes encounter serious legal uncertainties. Particularly when regulations delay or prohibit urban development in certain areas, as any regulation must sometimes do if it is to guide development effectively at this scale, they approach or exceed the boundary of what may lawfully be done under the police power.

Even more serious than legal uncertainties are practical problems of regulatory effectiveness. Conventional zoning, which theoretically requires governments to specify appropriate land use, in detail, in advance—is often unsuitable for at least two reasons.

*First*, it may require governments to decide too much too soon—before there is any rational basis for determining how land should be used. Since the regulations apply to privately owned land, the initiative for development normally comes from the landowner. And his actions, responding to changing market demands and other conditions, are unpredictable. The regulating government does not know when he will decide to develop or what he will then want to do. (The landowner, of course, often does not know either.) Yet the way he wants to use his land is surely a relevant factor in reaching a public decision on how it should be used. With the right adjustments, after all, many an open meadow could serve the public interest just as effectively if developed for light industry as for homes or gas stations.

As a result, from the public standpoint, the most intelligent way to regulate future development in many areas, though certainly not in all, is to wait until they are ready for development and then to apply public policies to all the facts at that time. In those situations where planners' foresight clearly indicates a single most appropriate use, there is every reason to make decisions well in advance—so that scarce industrial sites, for example, or irreplaceable open space, do not appear.

A *second* difficulty with conventional zoning is that it often proves ineffective to achieve the

desired type and timing of development. Again the problem stems from the nature of relationships between the public and private sectors. The problem is well illustrated by the case of commercial development. In the early days of zoning, it was customary to "overzone" for business; long strips of vacant highway frontage were put in business zones. Since the zoned supply exceeded demand for business locations at any one time, commercial development often scattered along the strips. The results are everywhere around us; large areas preempted by scattered commercial uses, wasted land, mixtures of commercial and residential uses, and a continually decreasing quality of the business environment. Scattered development is also a common result when vast areas are zoned for residential development.

At the opposite extreme lie efforts to pick "just enough" spots for businesses. Some towns have designated on the zoning map a precise location for the one shopping center that an area can economically support. Predictably, the market value of the zoned land soars, sometimes so high that no developer can afford to buy it. Pressures for rezoning of other land grow, and if a center is to be built at all, that rezoning may have to be granted.

Out of these difficulties has arisen much of the pressure to turn to some form of "wait and see" technique for guiding development at this scale. At present, these techniques are still being refined, and it is far from clear just which matters should be decided in advance of development and how those advance decisions should be made applicable to later development proposals. Some communities, for example, are proposing more frequent revision of zoning maps to accommodate changing circumstances. Others are relying on broad policies which are applied individually to the facts of each case. Still others seem to be following no discernible policy at all.

It is becoming increasingly clear that regulatory techniques cannot alone solve many of the most pressing land-use problems and must not be thought of as even the primary vehicle for solving some of them. It is not surprising that communities have continued to rely on regulations to achieve increasingly ambitious development guidance objectives. Experience shows, however, that new goals require new techniques that go beyond regulation.

#### *Cost of development*

A major objective of the regulatory process should be to assure that excessive standards do not needlessly raise development costs, since any increase in those costs effectively reduces the number of people who can afford the homes they want. Reduction of housing cost is too seldom a significant local objective: the oversimplified

notion that higher standards are always in the "public" interest, and that lower ones help only the "selfish" developer, is all too common. In many instances, of course, this is in fact true, and in others it clearly is not. In still others, so little is known about desirable standards that no one can be sure. Nevertheless, there are numerous instances in which a relaxation of standards would not seriously impair quality and would permit cost reductions and consequent opportunities for more people to obtain decent homes. Requirements governing lot size, street width, and pavement thickness are often among prime candidates for relaxation.

A second cost criticism is that administrative procedures have become needlessly complex and time-consuming, adding significantly to the cost of development.

We noted earlier that increased costs are sometimes the result of conscious local policy. In other instances, they result from uncertainty about what an appropriate minimum is. It is noteworthy, however, that the very nature of zoning readily lends itself to the imposition of high cost requirements. The intent of zoning is significantly different from the objectives of building and housing codes. To some extent, of course, zoning shares with those codes the objective of assuring that development meets minimum standards of quality. Assurance of adequate light and air, for example, and protection against fire and other dangers, are among the stated purposes of most zoning statutes and regulations.

In fact, though, the assurance of areawide minimum quality standards has not been of central, or even particularly significant, concern in the adoption of most zoning regulations. Although the requirements in the least restrictive residential zone may amount to a sort of *de facto* minimum quality for residential construction, the main concern has been with the segregation of incompatible buildings and activities—and more recently densities—from each other. As the Supreme Court put it in the *Euclid* opinion upholding zoning, the problem is like that of a "pig in the parlor instead of the barnyard." Over the years, in some of the communities that have sought to assure quality the barnyard is no longer a problem, and the effort is to segregate parlors of varying sizes and qualities. If the inability of many people to afford any but the most minimal parlor is not recognized, the well-meaning regulatory process can too easily have overly restrictive results.<sup>29</sup>

### *Fairness of application*

A third objective of the regulatory process should be to achieve its substantive results without unfair or unequal treatment of affected persons. The impact of regulations on land values, and the increasing use of discretionary regulations, coupled with the failure of local governments to state their policies and objectives in any useful detail, intensify the difficulties of achieving this goal.

At least as difficult as determining the proper objectives and effective techniques of regulation is the determination of how these public objectives may be achieved without unfairness to individuals. In the Commission's view, the most objectionable "unfairness" of current regulations is the imposition of development costs which exclude people who could afford decent, if less impressive, homes. Previous sections have considered these problems. Two other types of unfairness, however, are also important: the unequal impact of regulations on land values and the inequalities of land use administration.

### *Land values*

Historically, the fair treatment of landowners has dominated much thinking about land-use regulations; and as public intervention becomes more dramatic, this problem becomes increasingly serious. The regulatory system is overlaid on a private market system in which development decisions are initially determined by market forces. The regulatory system is conditioned by the existence of this private market and by the actions of speculators, developers, and consumers of land.

The price which any piece of land will command in the market is determined by the interaction of supply and demand. Such factors as proximity to transportation facilities, topography, access to shopping and cultural facilities, availability of sewers and water, views, and many other factors, will affect price because of their effects on demand and supply.

Zoning affects land values in a number of ways. *First*, by protecting development against the encroachment of undesirable uses, it can help to maintain and enhance property values. Indeed, much of the interest and concern in the zoning system by homeowners is based on this desire to preserve their investment. *Second*, zoning may raise the price of land designated for certain uses by restricting the supply of such land. Such restrictions occur because zoning decisions reflect factors of social cost and benefit which the private market does not consider. *Third*, by restricting land to a use for which the market demand is not great or for which there is already an abundant land supply, zoning may reduce the price below that which

<sup>29</sup> A more complete discussion of land and land improvements costs is contained in Part V, and consideration of future efforts to establish minimum standards is contained in Part III.



would otherwise prevail. In the last two cases, zoning not only affects price in a general way, but it actually "locates" its price effects by designating particular pieces of property for particular uses. And this, it must be noted, is not a result of bad administration: it is an inherent result of a noncompensative regulatory system that recognizes a need to treat different land differently.

The earlier discussion of localism dealt specifically with the cost effects of extensive large-lot zoning on the cost and supply of housing. Here it should simply be noted that the decision to permit a particular piece of land to be used for a high-rise apartment, while its neighboring property is relegated to single-family houses on 4-acre lots, obviously can produce substantially different value effects on the two properties. Generally speaking, if zoning is changed to permit higher densities—more units per acre of land—the price per acre in most areas of strong market demand can be expected to increase. Similarly, permitting certain types of uses for which demand is high but for which the zoning map allows only a small number of locations can result in astounding windfalls. In Philadelphia, for example, one study found that lots on which gasoline stations were permitted sold for 50 times the price of nearby land.<sup>30</sup>

It is not surprising, therefore, that zoning is subject to enormous pressures by landowners and developers and that outright corruption is far from rare. Increasingly frequent newspaper exposés of corruption are dramatic and unfortunate testimony to the relation of the control process to private market forces.

#### *Equity of enforcement and administration*

In still another sense, the system is too often "unfair" in its day-to-day administration. Arbitrariness—the failure to relate regulations to discernible public objectives and to apply them evenhandedly to all comers—is commonplace in many localities.

The greatest abuses arise in enforcement and in the handling of discretionary decisions. From the beginning, variances and exceptions have afforded an opportunity for abuse of discretion. And as more communities have come to rely (overtly or covertly) on the "wait and see" approach, the opportunity has grown. Rezoning is peculiarly susceptible to this abuse.

Variances, special exceptions, and rezonings today occupy a substantial part of the time of planning and zoning boards. In theory, such

decisions are made within the framework of general guidelines set out in State enabling acts and local ordinances. In practice, such guidelines are difficult to apply, and action purportedly taken under them is difficult to evaluate, if only because of the array of conflicting public objectives that could be properly applied in many such cases.

Variances may be granted, according to the Standard State Zoning Enabling Act, which "will not be contrary to the public interest, where, owing to special conditions, a literal enforcement of the provisions of the ordinance will result in unnecessary hardship, and so that the spirit of the ordinance shall be observed and substantial justice done." Such broad language obviously leaves much room for arbitrary action; and in view of the land value implications of many variance decisions and the time pressures on zoning boards,<sup>31</sup> it is not surprising that abuses occur. Studies have shown that large numbers of patently illegal variances are granted every year.<sup>32</sup>

Special exceptions pose similar problems. The guidelines for them are set forth in the ordinance itself and tend to be very general indeed. Rezoning presents the greatest problems of all because they are considered legislative acts and often subject to no meaningful standards.

The problems are made much more serious by the failure of local governments to make plans, state policies, or explain what they are doing and why. As noted in an earlier section, this failure interferes with the effectiveness of regulations. By the same token, the likelihood of arbitrariness is immeasurably increased, and the opportunities for recognizing it as such are reduced.

The courts are available to review regulatory decisions, but this review process has often proved unsatisfactory. Time and expense often deter developers and neighbors from seeking review of even the most outrageous decisions (just as they deter some communities from enforcing regulations against even notorious violators). But, even when court action is pursued, the results are generally less than satisfactory. Perhaps as a result of the volume of zoning litigation, judges in some States see such cases as

<sup>30</sup> A study in Philadelphia some time ago revealed that the zoning board sometimes heard as many as sixty to seventy variance cases in one sitting.

<sup>32</sup> Three field studies in particular have examined decision-making practices in variance cases. Similar results were discovered in Alameda County, California; Lexington, Kentucky; and Philadelphia. In Alameda County, for example, the study found that in only 15 of 284 variance approvals were there any showing of special circumstances or hardship. See *Zoning: Variance Administration in Alameda County*, 50 Calif. L. Rev. 101 (1962); Dukeminier and Stapleton, *The Zoning Board of Adjustment: A Study in Misrule*, 50 Ky. L.J. 273 (1962); *Zoning Variances and Exceptions: The Philadelphia Experience*, 103 U. Pa. L. Rev. 516 (1955).

<sup>30</sup> Grace Milgram, *Land Prices in the United States, 1945-1967*, a study prepared for the National Commission on Urban Problems, p. 107.

bothersome and involving issues of little importance. The statutory guidelines are difficult to apply and the facts of each case tend to be complicated yet uninteresting to many judges. Finally, localities often disregard court decisions when granting or denying future variances or rezonings; the earlier court case always seems different from the case at hand today.

The possibility of unfairness in these cases is enhanced by a pervasive lack of procedural safeguards in the local decisionmaking process. Hearings before local zoning boards tend to be extraordinarily informal. In many places, witnesses are not required to testify under oath, transcripts are not kept, written opinions are not provided, and conflict-of-interest laws are nonexistent or unenforced. Most enabling acts do not establish clear guidelines for the conduct of hearings, and State administrative procedure acts do not generally apply to local government proceedings. Even where guidelines do exist, they often are not followed.

Again, the courts provide only limited relief. In general they have taken one of three stances regarding such matters: (1) they may return a case to the local agency with clear instructions on procedural safeguards to be applied in a rehearing; (2) they may retain a case and conduct what amounts to a new trial, or (3) they may simply apply a strong presumption that the administrative action was satisfactory. The time and expense involved in either of the first two approaches may make even a favorable decision to the appellant a Pyrrhic victory.

Another major source of unequal and unfair treatment is the review of subdivision plats and planned development proposals. In many jurisdictions developers must navigate their way through a maze of officialdom, with different officials reviewing the plan for street layout, sanitary facilities, building location, and so on. Intentional delays are not uncommon in communities which would, in fact, prefer no development at all;<sup>33</sup> and the disapproval of a single official along the way, based perhaps on personal whim, can destroy the proposal entirely or set it back for months. Even where planned unit development is theoretically available to developers, some prefer to build conventional subdivisions solely to avoid the added dangers and burdens which administrative processing can impose.

The provision of facilities and dedications of land (or payments in lieu of dedication) within subdivisions are also fertile subjects for abuse. Ground rules regarding what a develop-

er must provide and what the public must provide are often lacking. Thus the review process can easily degenerate into a bargaining process over who is to pay for what.

Finally, as noted earlier, discretionary decisions can provide the leverage point by which officials can fulfill exclusionary objectives. The developer who seeks to build a racially integrated project or moderate-income housing may find that his plans do not receive approval or that minor objections to various aspects of his plan drag on interminably.<sup>34</sup>

Developers, of course, are not blameless. It takes two people to consummate a bribe. And even aside from outright dishonesty, developers often attempt to obtain specially favorable treatment or to circumvent or violate regulations. Indeed, local suspicions and redtape can often be traced to bad experiences with developers who have broken promises, misrepresented their intentions, or installed substandard improvements that later broke down.

## FUTURE DIRECTIONS FOR DEVELOPMENT GUIDANCE TECHNIQUES

We have seen the origin and evolution of land use regulations in response, primarily, to growing pressures for increased development quality. In a nation with a rapidly rising living standard and with a growing sense of the importance of environmental quality, these pressures will continue to grow. We have also seen, however, that regulations are far from achieving their essential objectives. There remains vast room for more effective regulations to move toward quality without exceeding the proper bounds imposed by considerations of cost or fairness.

It is clear, however, that regulations cannot alone achieve development guidance objectives. Two types of public action hold particular promise as supplements to regulation: (1) measures to encourage the larger projects which regulations can most effectively guide, and (2) increased reliance on direct public action to achieve development guidance objectives.

### *Increasing the scale of land development and redevelopment*

a. *Advantages of large projects.*—From the standpoint of both effectiveness and fairness of

<sup>33</sup> For a detailed case study of the travails of one developer in seeking approval for a planned unit development, see Raymond and May Associates, "Zoning Controversies in the Suburbs," for the National Commission on Urban Problems, Research Report No. 11, pp. 48-71.

<sup>34</sup> The Commission is aware of cases in which developers have been warned about trying to integrate their projects or have been denied approval of projects. A less subtle instance occurred several years ago in Deerfield, Illinois, a prosperous suburb of Chicago. Morris Milgram, a builder of integrated housing, attempted to develop an integrated housing project. When local officials discovered his intent, they decided that his land was needed for a public park and proceeded to condemn it. This technique, involving as it does the actual outlay of public funds with attendant publicity, is a more extreme approach than some less obvious, but often equally effective, techniques such as those mentioned. Nevertheless, it is apparently not unique to Deerfield.



regulation, there appears to be substantial public gain from an increase in the size of individual development and redevelopment projects. In built-up areas, small-scale development—meaning development of one or two scattered lots at a time—often makes little sense in deteriorating parts of the city. The effect of surrounding blight on the few new buildings in the neighborhood will seriously impair their marketability and may prevent their commanding an economic rent. If sound investment is to be possible in such areas, it appears that it will have to be at a scale sufficiently large to change the character of the neighborhood or block.<sup>35</sup> In undeveloped areas, large-scale development can result in significant aesthetic and cost advantages.

In dealing with the small-scale relationships that determine neighborhood character, some of the advantages of large projects are these:

*First*, from the standpoint of effectiveness, regulations can safely leave much greater discretion to project designers than is practical when small projects are dependent on their neighbors for environment. This is desirable because it provides opportunity for the varied and imaginative designs that increase available environmental choice.

Scattered small projects effectively require the community to decide more of the relationships among landowners—rather than limiting itself to the larger scale relationships. Every development limits the practical and desirable choices for the use of surrounding land. This is obviously true for city slums or areas of heavy industry; it is also true for the exurban community that will demand special protections so that the intrusion of small houses nearby will not disrupt a “horsy” way of life.

None of this is meant to suggest that regulatory processes applied to small projects cannot be much more effective than many of them now

are. Nevertheless, the fact remains that the small scale of development forces communities to make decisions about the use of land which developers at larger scale could be left to make with less public supervision. Because of scattered development in fringe areas, communities must assume in some detail what landowners will want to do—and often must make regulations on the basis of the assumptions—instead of waiting until the landowners decide for themselves.

*Second*, also from the standpoint of effectiveness, the developer of a large project is more likely to apply design skills than is the developer of a small one. In the first place, a small project may provide smaller scope for the exercise of design skills because of limitations imposed by its surroundings. In the second, the larger scale of operation is more likely to permit the developer of a large project to afford the services of highly paid designers.

*Third*, the flexibility in design which can be afforded large-scale developers can result in lower development costs. By carefully planning the relationship of structures, for example, site improvement costs can be substantially reduced.

*Fourth*, from the standpoint of fairness, the advantages of larger projects can also be substantial. In a large project, the community can apply relatively uniform standards to similar large projects and still give substantial freedom to allocate permitted development within each project. In this way, the impact of regulations on the values of adjoining lots—an impact that either discretionary or conventional regulation cannot avoid—can be lessened. In smaller projects, particularly as communities seek to escape from the rigidities of uniform use regulations and uniform density requirements, decisions that permit variety almost inevitably favor one landowner over another. And the resulting strains, particularly because of land-value consequences, are very great indeed. Many town councils must engage in a huge game of who-gets-the-gas-stations (and the bonanza in resulting land values that go with them) so long as the councils operate at this small scale of decisionmaking.

In dealing with matters of regional and community-wide impact, increase in project size has more limited value. The essential benefit of large projects in dealing with small-scale matters is that design skills may be exercised, at the time of development, without the tensions caused by fragmentation of land ownership. These advantages are simply not available in the case of the regional scale matters because project size is not likely to be *that* big.

<sup>35</sup> In testifying before the Commission, Dr. Jerome Rothenberg, Professor of Economics at M.I.T., stated the point this way:

“The value of a particular piece of real property in an urban area depends not only on its own use but on the use to which neighboring property is put by its respective owners. In economics, we refer to this as neighborhood externalities.

“The reason for the interaction is that the user of such real property in urban areas is not buying housing services solely. He is buying the whole neighborhood, with its ancillary opportunities, both positive and negative, along with the services of the particular property. As a result, in the case of slums, so long as some slum occupancy remains profitable in a given neighborhood area, any individual, private attempts to upgrade or radically change land use in a small part of this area will tend to be unsuccessful. In other words, the value of his property will largely be determined by the dominant tone of the neighborhood, which is a function of land-use decisions by property owners other than himself. He does not have easy recourse to direct market transactions to influence their differing viewpoints about profitability.

“Success of private action to upgrade or change land use radically in such areas will therefore require the assembly of parcels of land large enough to dominate the character of the neighborhood.” *Hearings Before the National Commission on Urban Problems*, Vol. 1, p. 326.

Nevertheless, an increase in project size to something approximating "new town" scale can assist communities in rationalizing their planning and policymaking processes. The crucial factor is the timing of public decisions. If a town receives a proposal to develop a "new town" or some other very large scale development, it might normally be able (1) to assume that this is indeed the relevant time for its regulatory decision and (2) to concentrate on large-scale public interest requirements, since the small-scale relationships within the town could be left more largely up to the developer who controls the land.

However, when the community gets a request to rezone 40 acres a mile or two from the built-up area, it faces additional problems because of the greater dependence of development at this small scale on its surroundings. The town cannot be sure the time is right. The neighbors of the 40-acre tract may wait 5 or 10 years to develop, even if this 40-acre development goes ahead. And if this development is allowed, the community is forced to make some decisions that will affect the future in important ways. For example, if it extends a trunk sewer line out to the new development or requires a setback for widening of a major street, it must decide how big that line and street will be, and this in practice means that it must estimate what populations they will serve. A benign community might have no abstract desire to limit population artificially, and it might prefer to wait to make these decisions until the whole area is, in fact, to be developed. Nevertheless, the scattering of development over time may require the making of decisions "too soon." The community reasonably wishes to avoid building facilities that are needlessly large. It also wishes to avoid allowing the facilities to be overloaded, and it may for that reason limit the densities of development on the adjoining land to the ones assumed when the sewer line and streets were installed. In short, premature small-scale development sometimes "locks in" planning decisions that could better have been left as planners' estimates for a few more years.

What should the intensity of development be within planned-unit developments in undeveloped areas? Limitations on development intensity—both physical and population density—are perhaps the most decisive way in which present land use controls determine the character of new residential areas.

There are several justifications for such limitations. As noted, local or regional plans may dictate that substantial areas remain essentially undeveloped. Development timing proposals

may call for little, if any, development in a particular area at a particular time. Topography (flood plains, rocky terrain) may legitimately require very low densities. And, even in large developments, practical limitations on public facilities (streets, schools, sewers) may impose limitations on the amount of development that can be served.

It appears, nevertheless, that much of the current local limitation of intensity could, in the case of large projects that create their own environment, be relaxed. In the absence of clear metropolitan form considerations or of topographical ones, many of the most unfortunate present land use disputes could be eliminated if communities would deliberately plan public facilities large enough to serve the anticipated market demand for development in the area. Of course, minimum quality standards should assure that genuinely substandard dwellings do not result. But liberalized density standards would free developers to serve customers with different incomes, including moderate- and low-income customers, who often cannot afford low-density dwellings.

Moreover, many of the corruption-producing disputes over apartment rezoning could be eliminated by allowing planned developments to reach approximately the densities demanded by the market and by planning public facilities accordingly. Although some waste of public facilities could occur as a result, the relative amount of it is far from clear, and much of any potential waste could be reduced by authorizing a system of "density transfer," under which a developer who did not use all the density allowed in his project, could transfer the unused amount to a neighboring project.

b. *Obstacles to large-scale development.*—Despite present trends toward increasing scale in development and "wait and see" public responses to new developments, a number of obstacles must be overcome by public and private participants in the development process if there is to be a fuller realization of the advantages of such approaches.

*First*, land assembly is a major problem. This is especially acute in central cities, where it seriously deters large rebuilding projects. Even in undeveloped areas, however, large parcels of land in single ownership are often not available. Assembling a large parcel for a new community or large planned development often requires dealing with hundreds of persons, and a single holdout can impair the entire plan or cause undesirable readjustments. In assembling 15,000 acres for the construction of Columbia, Md., for example, the Rouse Co. dealt with 318 individ-



ual owners and completed 140 purchases; and five holdouts, holding 850 acres, never did sell.<sup>36</sup>

In built-up areas, particularly in the oldest center city areas most in need of new investment and redevelopment, the difficulty of land assembly is even greater. Parcels are smaller; ownership is more fragmented; and titles have passed through many hands, making it almost impossible in some cases to determine the state of the title with certainty. The urban renewal program, of course, seeks to help the situation by applying the Government's eminent domain powers in areas where private assembly would be impossible. Information on the assembly problems that make these powers essential is contained in tables 9 and 10 and the accompanying notes.

Not only is there danger of absolute refusals to sell, but as it becomes known to landowners that their parcels are needed as part of an overall plan of acquisition, their asking price increases to reflect their bargaining position. A developer in Amherst, N.Y., seeking to assemble 1,200 acres, discovered that within 3 months of his initial acquisitions, land prices had risen from \$1,100 an acre to \$2,500 an acre; and some of the needed land, which 10 years earlier had sold for \$50 an acre, had to be bought at \$4,000 an acre. Similar but more intense problems are encountered by land assemblers in built-up areas.

*Second*, very large-scale projects require the commitment of enormous sums far in advance of any returns. Money is needed for land assembly, planning, and site improvements. The larger the project, the greater the expense and the time lag before the first cash returns from the sale of property are realized. Finding a source for the capital that is needed and meeting payments over a long period during which returns are small or nonexistent may simply not be possible without some Government assistance.

*Third*, more sophisticated approaches such as planned unit development require more sophisticated administrators. However, local governments are grossly understaffed, and an astonishing number of urban and rural fringe jurisdictions which are beginning to experience development pressures do not have a single full-time employee. Hernando County, Fla., for example, which had a 1960 population of 11,250 is now the site of a half-completed "new town"

planned for 50,000 people and containing 17,000 acres. The county has neither a planning commission nor a single employee engaged primarily in land-use control activities. In Stafford County, Va., on the outer fringes of the Washington metropolitan area, a "new town" of 10,000 is in the planning stage. One professional planner is available to the county on a part-time consultant basis. In Charles County, Md., only 20 miles from Washington, a "new town" planned for upward of 100,000 on 8,000 acres is now under construction. The county has no subdivision ordinance as such and shares one planner with two neighboring counties.

Urban fringe jurisdictions such as these, no matter how concerned and well-meaning, are simply not equipped to handle large-scale development. Their reactions to development proposals may take one of several forms. They may simply defer to the developer, allowing him free rein in decisions which vitally affect the future of the area. They may seek to impose traditional, unsophisticated controls of the type which they understand but which may stifle economical and imaginative development. Or they may try, by all means possible, to prevent development altogether.

Opportunities are being lost daily for attractive new development because of local incompetence. Any effort to promote the use of controls which can stimulate quality development must, therefore, be accompanied by efforts to improve the quality of government administration.

*c. Role of small builders in large developments.*—Increasing scale of development does not mean that small builders will no longer be able to compete. The trend in recent years has been toward a separation of the development function and the builder function. The developer acquires land, plans its development, negotiates with public officials for approval of his plans, and prepares the land for development. He then sells or leases the land for actual construction to merchant builders or to future residents, who arrange for their own construction—all in accordance with the overall plan of development. In effect, then, the developer provides the unified planning and initial control functions, leaving open the opportunity for full participation by small builders in development of a large-scale project.<sup>37</sup>

*Use of direct public action to guide development*

It would be grossly misleading to suggest that zoning and subdivision regulations are the only—or even the most—important public

<sup>36</sup> "The story of Rouse's negotiations with landowners reads like a James Bond novel. Secret rooms, plot strategy and dummy corporations characterized the process. To reduce the possibility that landowners would become aware of (the) intention to build a community Rouse created shell corporations under such names as Serenity Acres, Cedar Farms, and Potomac Estates. Each of the corporations contracted with a different realtor. Their 'separate' activities made it appear that there were several unrelated efforts in the area to establish a number of small-scale subdivisions." Eichler and Kaplan, *The Community Builders*, p. 61.

<sup>37</sup> In Reston, Virginia, a partially completed "new town" outside of Washington, eight builders are presently engaged in construction, with the production of each ranging from two units per year to seventy-five units per year. In Columbia, Maryland, between Washington and Baltimore, twelve builders are presently involved in construction.

actions affecting land use. Throughout the Nation's history, government actions of various kinds—though perhaps not directly formulated or administered primarily with the purpose of guiding urban development—have significantly affected the process. At the Federal level, for example, the Government's daily decisions as to the locations of its own facilities and the placing of its contracts may have far greater impact on the development of an area than the administration of the local regulatory controls. The effects of the Federal aerospace program on development in the Southwest and Florida are among the more dramatic recent examples.

Any exhaustive listing and discussion of the major public programs directly affecting urban land use is secondary to the mandate of the Commission. Nevertheless, no accurate appraisal of the current land-use guidance system would be possible without some mention of the most important ongoing programs of direct public action. Two programs in particular—highways and sewer and water—demand attention.

### *Highways*

Probably there is no more important single determinant of the timing and location of urban development than highways. Highways in effect "create" urban land where none existed before by extending the commuting distance from existing cities. The low-density pattern found in most of the Nation's suburban areas would never have been possible without the effect of high-speed highways in reducing the importance of compact urban development. As highways stretch out from existing urban areas, development quickly follows, with even the most carefully considered plans and zoning ordinances rarely proving a match for the development pressures generated. The phenomenon of strip commercial development along non-limited access roads is one example of the irresistibility of such pressures.

The pressures are greatest, of course, at highway interchanges, just as the junction of two rivers in an earlier era was a strong invitation to settlement. And it is at the interchanges that the relative weakness of zoning as a development guidance technique is often most sharply illustrated. Such locations, if properly planned, can provide ideal settings for high-density nodes, which would lend some focus for surrounding lower density development. Yet pressures for development generally occur before the market is ripe for higher densities and zoning can rarely prevent such premature development. The result is that the opportunity for promoting these high-density centers is forever lost,

and monotonous sprawl continues to gorge itself on the countryside.

Highways do not stop at the urban fringe, of course, and their effects upon built-up areas have perhaps understandably received greater attention than their impact on previously undeveloped areas. The role of mass transportation was for many years almost totally neglected in the discussion of Federal transportation policies and only in the past few years has taken on new promise. Thus, highways have held center stage; and in the zeal of engineers, highway planners, and administrators to get on with the important job of accommodating traffic needs, social and esthetic values have sometimes been shockingly overlooked. The routing of highways through existing neighborhoods, unless carefully planned with a range of goals and values in mind, can mean the quick demise of neighborhood character and viability and lasting bitterness on the part of those affected. Furthermore, it can effectively separate various parts of the city from other parts, and the claim has been made in various cities that highways have been used to separate Negro and white neighborhoods.

State highway departments, through which Federal and State highway funds are applied, have traditionally been quite independent of legislatures and Governors. They are extremely well funded and have political support of their own. Often they are able to ignore totally the desires of local officials; and no State agencies—outside the legislatures and Governors—are established to reconcile differences. The result is that State highway departments to a considerable extent go their own way, leaving local officials "holding the bag" after a poorly planned and designed highway has damaged sections of built-up areas (and left the job of relocating displacees to already hardpressed local housing officials) or completely ignored and effectively destroyed development plans. Only on rare occasions—such as have occurred in San Francisco, Philadelphia, New York, and Washington—have localities been able to stop a highway, sometimes only through a technicality. In practice, then, highways are seldom used as affirmative tools for development guidance.

### *Sewer and water lines*

Second to highways in their potential impact on the timing and location of urban growth are sewer and water lines. At higher densities, development meeting minimal sanitary standards simply cannot take place without the existence or assurance of sewer and water lines. And the size and capacity of sewers and water lines can effectively set maximum limits on the density of new development. At lower densities, wells



and septic tanks can often meet development needs; and the absence of lines or the unwillingness of the government to spend the money necessary to extend them, is often reflected in zoning for very low densities.

Decisions as to the location, timing and capacity of sewer and water lines can obviously have substantial effects on development; yet, as in the case of highways, the making of such decisions with a view to development guidance has been woefully lacking. In some places the basic decisions on these facilities are made by officials of independent sewer and water districts over whom the general purpose government has little or no control. In other places, even though institutionally within the general-purpose local government, the sanitary department is permitted to go its own way, as usually dictated by sanitary engineers. And the tendency is to follow development, in response to pressures by developers and homeowners, rather than to lead it.

Highways and sewer and water lines represent only two of many forms of direct government action influencing urban land use. But like many such influences, they are too seldom seen as affirmative development guidance tools. Decisions about them are made by functional experts—highway and sanitary engineers—on the basis of functional criteria; and they often run counter to, or fail to support, broader urban-development policies.

There have been some recent signs of change. Several States now have procedures whereby local planning commissions can comment on proposed highway plans in their areas. At the Federal level the 1962 Highway Act provided that after July 1, 1965, federally aided projects for urban areas must be based on a continuing, comprehensive transportation planning process carried on cooperatively by the States and local communities.

## CONCLUSIONS

There can be no single prescription of a perfect technique to achieve a millenium of high quality, low cost, and fair treatment. Rather than seek a single prescription, the need is instead to relate development guidance techniques more effectively to the varied objectives they are meant to achieve in each locality, to the particular problems that impede achievement of those objectives, and to the development processes that must be guided to overcome those problems. In the past there has been too little recognition of the different kinds of problems

with which land use controls must deal. In considering what is desirable for the future, it is essential that there be a clear recognition that controls operate in different contexts and that a single approach will not work in all of them. Although a varying mix of responses will exist in different places, the following directions are proposed:

*Detailed preregulation*, a refined version of conventional zoning, should not be given up in those situations in which it is likely to be effective. Additional administrative discretion inevitably carries with it a danger of additional abuse as well as substantially increasing administrative burdens. If these problems can be avoided without great detriment to effectiveness, then they should be avoided. Most communities, for example, may continue to conclude that the protection of built-up areas with well-established "character" is a suitable situation for quite conventional regulations.

The "*wait and see*" techniques, of which planned-unit development provisions are a prominent example, have great promise as devices to achieve harmony without monotony in the small-scale relationships within blocks and neighborhoods. As suggested in earlier discussion, these techniques need continuing refinement if they are to achieve an appropriate balance between preregulation and discretionary review. Moreover, they need to be tied much more closely and effectively to stated public objectives, and they need highly qualified professional administrators if they are to do their jobs well. Still, this refinement of regulatory technique appears to have potential for enabling regulations to guide the small-scale relationships—which were the central concern of zoning in the first place—without some of the drawbacks of conventional regulations.

As previously discussed, affirmative steps should be taken to encourage an *increase in the scale* of land development and redevelopment. The fundamental benefit of planned unit development techniques is that they take advantage of the special potentials inherent in large projects. Market trends toward larger scale development should be encouraged so that these advantages will be more widely available.

The promise of larger scale development under unified planning is not solely a promise of more attractive development. It opens up the possibility of mixing housing for persons of various income levels and different tastes—a possibility which past experience suggests is not present when development is scattered and necessarily controlled on a lot-by-lot basis. It also

can result in substantially reduced costs to both developers and the public.

Even with all foreseeable refinements, there are fundamental—and apparently inherent—limitations on the extent to which regulations of private land can effectively and fairly achieve all important public objectives. These limitations—particularly the impact of regulations on land values—are particularly noteworthy when regulations are used to guide development that has regional or communitywide impact. As already suggested, increased scale of development may have some benefit in enabling regulations to cope with this limitation as well as to achieve other, smaller scale objectives. It is clear, however, that measures other than regulations must be given substantially greater attention if these objectives are to be achieved. In particular:

*First*, as discussed above, new attention must be given to assuring that public decisions regarding the location and timing of major public facilities achieve their vast potential as development guidance tools. Governments must recognize, when they build a highway or a school or a waterline, that they influence the nature and timing of development within the areas served by those facilities—and they must plan their facilities accordingly.

*Second*, in many situations, governments must move to compensative approaches in addition to regulation or in place of it. They must purchase land, or interests in land, where needed regulation will not be effective or will result in serious unfairness to individual owners or will be struck down by the courts as an unconstitutional “taking.”

Finally, as repeatedly stressed in this report, measures must be taken to improve the willingness and ability of local governments to perform the job of development guidance.

Local governments must be assisted to obtain better-qualified personnel for land-use administration. Efforts to this end should involve increased assistance by the States and Federal Government for training; extending technical assistance to local governments, especially those in the urban fringe that are just beginning to experience development pressures; and greater emphasis on day-to-day land-use administration problems in planning curricula.<sup>35</sup> Training and dissemination of information is also needed on the private side. Developers need to know more about the use of sophisticated controls and

the opportunities which they afford for better design.

Most fundamental, though, is the need for local leadership. Although localities do require added powers (some of which are recommended in the next chapter), it is clear that most of them are not using effectively the powers they already have. Federal and State Governments can remove a number of obstacles to effective local action, and they can encourage such action in many ways. But these efforts will be of little value unless localities are willing to tackle the difficult development problems we face. Effective local leadership—more than plans and regulations and techniques—is the key to the needed solutions.

#### NOTES TO TABLES 9 AND 10: CENTER CITY LAND ASSEMBLY PROBLEMS

As suggested in the text, a major obstacle to achieving the scale necessary for investment in older city areas is land assembly. A study of governmental acquisitions of property during 1962–63 shows, for example, that 7,881 acres of land were acquired in fee under the Federal urban renewal program. The number of fee ownerships involved was 44,830, or an average ownership size of .17 acre.

Table 9 shows information on average sizes of parcels in selected cities. Table 10 reports data on parcel sizes in urban renewal projects in selected cities. In Baltimore and Washington, it will be noted, the average size of renewal parcels was .04 and .06 acre, respectively.

Table 10 data on condemnations are especially instructive. Title IV of the 1965 Housing Act requires that local renewal agencies “make every reasonable effort to acquire real property by negotiated purchase.” Yet in 1962–63, 20 percent of the acreage acquired was through condemnation. Such condemnations may be necessary either because of disagreements as to price or because of clouds on titles. In Washington, 25 percent of the parcels *acquired* were condemned due to price disagreements. In Norfolk, by contrast, 446 of the 596 *condemnations* arose because of title defects. In New York and Philadelphia, local officials report that title defects and uncertainties of one sort or another are such a severe problem that all properties acquired for renewal, even those purchased, are subjected to condemnation actions to remove any doubts about their titles.

The problems of holdouts and inflated prices are the same in the central city, though more intense, as in the urban fringe. In the Foggy Bottom section of Washington, for example, George Washington University acquired an entire block, with the exception of a one-half interest in a single house. The owner refused to sell, and it took the university nearly 15 years to acquire the site and complete the development. In Denver, assembly was attempted for a bank expansion and an apartment complex. Assembly at the beginning was “deceptively smooth.” Most owners were glad to cooperate and wanted only fair prices. But problems arose as the assembler approached his goal. In one block, the owner of a single key lot had tentatively agreed to a price which was, in fact, more than he expected to receive. Then a real estate man, seeing the significance of the property to the whole assembly program, advised the landowner of his leverage, and the assembler ended

<sup>35</sup> Planning schools and students tend to neglect the problems involved in administering land-use controls in favor of the more “in” subjects such as social planning or urban design.



up paying \$50,000 more than the landowner originally thought satisfactory.<sup>30</sup>

Probably the most common reaction of potential investors to this problem is simply not to attempt assembly in the first place. But even the successful assembler will be forced to bear the added costs of inflated prices and considerable time and work.

<sup>30</sup> Joseph Eichler, a builder and developer, described one of his experiences in trying to assemble land in San Francisco this way:

"One of the big things that prevents a private person from redeveloping any portion of this city is the difficulty of assembling the land. I once tried this myself when I first started in this business and was even more naive than I am now. I found an area which I thought would be a pretty good square block to buy, turn around, and redevelop. Well, I went around and I had a general idea of what I thought property was worth there, and I was able to make a deal with the first two parties I approached. All the deals I offered were subject to my acquisition of the balance. The next place I came to I found tied up in litigation, and the next place belonged to people living in Austria. Then, of course, by that time the word had got around that somebody was trying to buy the area—so it became an impossibility. The main tool involved in redevelopment is the right of eminent domain. This is what you have to insist upon with the Government. It is impossible for private enterprise to do this without the aid of government, and by government I mean the various state, Federal and municipal agencies." *Hearings Before the National Commission on Urban Problems*, Vol. 2, p. 307.

TABLE 9.—AVERAGE ACREAGE OF TAXABLE REAL ESTATE PARCELS IN 15 SELECTED CITIES: 1966

City	Averages, 1966	
	Parcel size (acres)	Parcels per acre
Phoenix, Ariz.....	0.76	1.3
Kansas City, Kans.....	.66	1.5
Salt Lake City, Utah.....	.52	1.9
Tacoma, Wash.....	.43	2.3
Albuquerque, N. Mex.....	.38	2.6
Los Angeles, Calif.....	.37	2.7
Denver, Colo.....	.32	3.1
St. Paul, Minn.....	.29	3.4
New Haven, Conn.....	.28	3.6
Norfolk, Va.....	.26	3.8
Milwaukee, Wis.....	.26	3.8
Pittsburgh, Pa.....	.18	5.6
Chicago, Ill.....	.14	7.1
New York, N.Y.....	.11	9.1
San Francisco, Calif.....	.09	11.1

Source: Special Commission tabulation based on unpublished data assembled by the Governments Division, Bureau of the Census, for the 1967 Census of Governments.

TABLE 10.—LAND ASSEMBLY IN SELECTED CITIES' URBAN RENEWAL PROJECTS

City and project	Acres acquired	Number parcels acquired	Average size of parcels in acres	Total condemnations	Percent condemned	Condemnations due to—	
						Price disagreement	Title defects or missing owners
<b>Baltimore, Md.:<sup>1</sup></b>							
UR-MD-1-3.....	39.39	843	0.05	14	1.7		
R-1.....	35.79	1,099	.03	81	7.4		
R-3.....	10.03	200	.05	5	2.5		
R-4.....	13.70	317	.04	12	3.8		
R-6.....	21.32	948	.02	73	7.7		
R-8.....	3.48	29	.12	0	0		
R-9.....	6.88	127	.05	8	6.2		
R-11.....	15.98	216	.07	20	9.2		
R-12.....	21.28	341	.06	36	10.5		
R-14.....	2.32	88	.03	29	33.0		
<b>Total.....</b>	<b>170.17</b>	<b>4,208</b>	<b>.04</b>	<b>267</b>	<b>6.3</b>		
<b>Little Rock, Ark.:<sup>2</sup></b>							
R-6.....	85.9	590	.15				
R-12.....	79.2	401	.2				
R-17.....	37.4	121	.31				
R-51.....	170.7	465	.37				
<b>Total.....</b>	<b>373.2</b>	<b>1,577</b>	<b>.24</b>				
<b>Norfolk, Va.:<sup>4</sup></b>							
R-1.....	140.98	470	.29	55	11.7	19	36
R-8.....	96.70	539	.18	65	12.0	35	30
R-9.....	63.80	268	.24	45	16.8	19	26
R-18.....	20.75	90	.23	15	16.7	10	5
R-25.....	306.41	1,216	.25	397	32.6	65	332
R-28.....	37.50	168	.22	19	11.3	2	17
<b>Total.....</b>	<b>666.14</b>	<b>2,751</b>	<b>.24</b>	<b>596</b>	<b>21.7</b>	<b>150</b>	<b>446</b>
<b>Washington, D.C.:<sup>3</sup></b>							
B.....	32.2	686	.05	298	43.3	274	24
C.....	177.8	2,630	.07	778	29.6	674	104
C-1.....	9.2	85	.10	25	29.4	19	6
Northwest.....	26.7	550	.05	133	24.2	124	9
Northeast.....	26.2	412	.06	68	16.5	63	5
Columbia Plaza.....	7.9	51	.15	3	5.9	3	0
<b>Total.....</b>	<b>280.0</b>	<b>4,414</b>	<b>.06</b>	<b>1,305</b>	<b>29.6</b>	<b>1,157</b>	<b>148</b>

<sup>1</sup> Source: Baltimore Urban Renewal and Housing Authority.

<sup>2</sup> Source: Little Rock Housing Authority.

<sup>3</sup> All totals for Little Rock are for parcels to be acquired.

<sup>4</sup> Source: Norfolk Redevelopment Authority.

<sup>5</sup> Source: Washington, D.C., Redevelopment Land Agency.

## CHAPTER 2

# Toward a More Orderly Urban Development

About 18 million acres of land will come into urban use for the first time in the course of the next 30 years, and the process of rebuilding and rehabilitation will replace large parts of present urban areas. Just as land-use decisions made years ago affect the quality of today's urban environment, so decisions made today and tomorrow will shape the quality of urban life for future generations. Reluctance to provide affirmative guidance for land development will not prevent development from occurring. Rather, inaction now will allow undirected and haphazard development; inaction, therefore, represents a decision about the future urban environment, just as careful, positive action does.

An examination of land-use controls was one of the basic tasks assigned to this Commission in section 301 of the Housing and Urban Development Act of 1965. It is a complex assignment, closely related to the issues of government structure, finance, and taxation discussed in part IV of this report, as well as to the codes, ordinances, and regulations examined in this part.

The Commission recognizes that people and localities differ, that broad assumptions about optimal urban form and character are hazardous, and that variety and experimentation are essential elements of our federal system. For these reasons, many of our findings on land-use control concern the creation of a governmental framework in which the legitimate choices of people can be effectively formulated into public policy which can then be translated into reality.

The Commission believes that land-use policies and practices are not limited in their importance and effects to the quality of the physical environment, but have major social and economic implications as well. We have tried, therefore, to understand the total impact of present practices and to formulate recommendations within the broader context of restoring fiscal and economic health to the cities of America and strengthening the currently fragile social fabric of our metropolitan areas. In brief, the Commission proposes—

Action to assure that local governments exercising regulatory authority are responsive to the needs of broad segments of the

population and are competent to exercise land-use controls in a fair and effective manner, coupled with State and Federal action to recognize and strengthen local decisionmaking wherever it does not clearly conflict with broader regional, State or national goals;

Establishment of State or regional machinery to reconcile conflicts among local governments and between local governments and special-purpose agencies, and to plan and act on matters demanding a broader-than-local perspective;

Establishment of policies and measures aimed at providing persons of all income levels with a wide choice of places to live and providing employees an opportunity to live near their work;

Formulation of clear, statewide rules allocating costs in new subdivisions between the public and the developer, and thus, in effect, between taxpayers and homebuyers;

Actions and procedures to assure the protection of built-up areas which provide an acceptable environment, and to eliminate blighting influences and encourage rebuilding in presently unsatisfactory neighborhoods;

Action to encourage and assist developments which are large enough to create their own environments and thereby to eliminate the need for some detailed controls that inhibit imaginative development, promote racial and economic segregation, and contribute to inefficient land-use patterns and strains on the control machinery;

Greater reliance on direct public action to prevent undesirable private development, provide public initiative for desired development which the private market cannot or will not supply, recapture land value increases for public use, and assure the realization of other public objectives.

### THE GOVERNMENTAL FRAMEWORK FOR GUIDING URBAN DEVELOPMENT

All levels of government—Federal, State, and local—play a significant role in the guidance of urban development, and the Commission has



sought to determine the most appropriate role for each.

*Tests of responsiveness and power*

Two main tests should be used to determine which level of government should be assigned responsibility for any particular function. First is responsiveness: Is the government responsible to the citizens most significantly affected by the decision? Second is power: Is the government in fact able to perform the function effectively?

The application of these tests has led the Commission to the following conclusions:

(1) *Local initiative.*—Local governments—i.e., governments below the State level—should bear primary responsibility for detailed guidance of urban development.

(2) *Larger local governments.*—So that local governments can take effective initiative in guiding urban development, the size of local governments in many metropolitan areas must be substantially increased.

(3) *Stronger local governments.*—Local governments must be strengthened through the grant of additional powers and through substantial financial and technical assistance.

(4) *Stronger voice for neighborhoods.*—In recognition of the special interests of property owners and residents in their immediate surroundings, increased efforts must be made to enhance the ability of neighborhood residents to effect changes and protect desirable features of their environment.

(5) *Effective implementation of State and National policies.*—The range of local actions must be effectively limited by the States and the Federal Government, both to assure fair treatment of property owners and minorities in each locality and to assure that local decisions will not place unfair, uneconomic, or unrealistic burdens on people who live outside a given local jurisdiction.

*Interim reallocation of regulatory powers.*—Substantial time will be required to achieve major changes in governmental structure of the kind recommended in part IV of this report. During this time, continuing development will determine the quality of urban environment in large areas for decades to come. The Commission therefore believes it appropriate to recommend interim measures which, though insufficient to secure the full local initiative which is the Commission's objective, may nevertheless be partial steps in that direction and may reduce certain abuses associated with the present regulatory system.

**Recommendation No. 1—Enabling competent local governments to guide urban development effectively**

The Commission recommends that State and Federal agencies take steps to assure that local governments bear primary responsibility for the guidance of urban development, and that they are capable of effectively performing this function.

**Recommendation 1(a)—County or regional authority in small municipalities**

The Commission recommends that State governments enact legislation granting to counties (or regional governments of general jurisdiction, where such governments exist) exclusive authority to exercise land-use control powers within small municipalities in metropolitan areas. Although conditions vary from State to State, it appears that municipalities within metropolitan areas should not have regulatory powers if (1) either their population is less than 25,000 or their area is less than 4 square miles, or (2) in the case of a municipality hereafter incorporated or not now exercising regulatory powers, their population is less than 50,000.

(These regulatory powers would thus be the responsibility of the county or regional agency rather than the small municipality itself. Such a reallocation of power is a proper function of the States because all regulatory power derives from the State police power.)

The Commission believes that local governments—meaning, for this purpose, governments below the State level—should bear primary responsibility for the detailed guidance and regulation of urban development. We hold this view because many development decisions—though by no means all, of course—have significant impact only in a relatively small geographic area. Relatively few such decisions affect an entire State. And although some do affect an entire region, and could best be handled by a regional government, popularly elected regional governments do not exist in most of the country. It follows that most of these public decisions should in practice be taken below the State or regional level.

Yet effective local initiative in guiding development simply cannot be achieved by many of the smaller local governments in metropolitan areas. Most such governments appear to lack the willingness and ability to provide effectively for massive change. Too often responding only to a narrow range of special local interests, these local governments are not exercising effective leadership in solving the most pressing problems of guiding development. If the smallest governments are allowed to continue exercising

powers vitally affecting development, the results will almost certainly be the continuing loss of opportunities to create a quality urban environment. Moreover, the failure of small localities to cope with increasingly serious development problems is placing ever greater pressure on the State and Federal Governments to intervene in what should be local affairs. The only way to stop this trend is to assure that local governments do an effective job of solving what are essentially local problems.

Local government is "big enough" when it is (1) big enough to see the problems, (2) big enough to cope with them, (3) big enough to permit effective coordination with other governments. Seeing the problems requires that the local government be representative of a broad spectrum of opinions and serve the essential governmental function of reconciling competing demands. The very small local government is likely, by contrast, to be a "special pleader" for a particular interest, blinded to many of the problems confronting the metropolitan area.

Coping with the problems requires both the legal powers and the resources to act effectively. When control is distributed among a patchwork of tiny autonomous jurisdictions, few problems will stop at the borders of any one, and few solutions will be within the legal power of any one. Moreover, quality development cannot be expected without highly qualified public administrators. The use of more sophisticated measures to guide development, and thus to solve increasingly complex governmental problems, requires full-time paid professionals with extensive knowledge and technical ability. Smaller local governments simply cannot afford this level of competence, and merely bolstering their inadequate resources while maintaining existing allocations of power would result in far greater total expenditures without producing compensating results.

Finally, local governments must be large enough to cooperate effectively with each other, coordinate their efforts, and provide a manageable number of authorities with which Federal and State action agencies can deal. When scores of local governments guide development in a single metropolitan area, there is little likelihood of their banding together to achieve essential regional goals. Furthermore, if Federal and State agencies, such as highway departments, are to perform their own functions satisfactorily, they have the strongest incentive to avoid dealings with scores of local jurisdictions and have generally ignored them. Ironically, the sheer number of governments thus creates an obstacle to placing greater control in the hands of local government.

The Commission believes that no more important step can be taken to improve the guidance of land development than the restructuring of local government. Short of that, we suggest that there must be a reallocation of the basic development control powers to place them in the hands of local government competent to exercise them effectively and fairly, while assuring responsiveness to most of the people affected by their decisions. Although size is of course no guarantee of competence, it can at least create an opportunity for competence that does not otherwise exist. Some variation will undoubtedly exist among the States with respect to the minimum size necessary and the unit of government which should exercise powers within the smallest municipalities. In many States the county seems to offer the best possibility, being an existing government of rather significant geographic size. In other States, counties may not be a satisfactory repository of such powers, and some other unit of local government must be found or created, or the powers exercised directly by the State. While no "scientific" measurement of minimum size is possible, the figures suggested here represent a minimum at which local jurisdiction and resources might be large enough to permit effective local action.

In part IV of this report the Commission discusses a greater role for neighborhoods in shaping their environment. We believe that those recommendations to strengthen neighborhood participation in land-use decisionmaking are consistent with the need to place land-use controls in larger units of government and that the two approaches should proceed hand-in-hand. The needs of fairness and effectiveness demand that the very smallest local governments should not have decisionmaking powers on important land-use questions. At the same time, there is a danger that individuals and neighborhoods will develop a feeling of helplessness and that public officials will not be sufficiently concerned with the interests of those people most immediately affected by their decisions. In both central city and suburb, then, it is important that the reallocation of land-use powers be accompanied by efforts to foster neighborhood interest and participation, while recognizing the role of the general government in reconciling the interests of various neighborhoods.

#### **Recommendation 1(b)—State requirement of a local development guidance program**

The Commission recommends that State governments enact legislation denying land-use regulatory powers, after a reasonable period of time, to local governments that lack a "development guidance program" as defined by State statute or administrative reg-



ulations made pursuant to such statute. Powers denied would be exercised by the State, regional, or county agencies as provided in the statute. The existence and enforcement by the States of such local development guidance program requirements should, after a reasonable period of time, be made a condition of State participation in the Federal 701 planning assistance program.

Although size is an important consideration in determining what governments should be responsible for development guidance, it is not the only important factor. Local governments should be required, as a condition for their continued exercise of control powers, to demonstrate that they are in fact making a significant effort to use such powers effectively. At the same time, the Federal Government should insist that States undertake to supervise the allocation of control powers in this way before granting 701 planning funds for use by local governments. It makes little sense for the Federal Government to spend such funds on localities which are unable or unwilling to administer the controls and other measures needed to achieve planning objectives.

At a minimum, the local development guidance program should require (1) a locally approved compendium of development policies that land-use controls are intended to achieve, covering such matters as transportation, housing, open space, air and water pollution; (2) a locally approved capital improvement program; and (3) evidence of the availability of trained professional employees, or consultants available on a continuing basis, to assist in formulating and administering local regulations.

#### **Recommendation 1(c)—Study of Government structure in relation to land-use controls**

The Commission recommends that the Department of Housing and Urban Development require, as a condition of Federal 701 grants to States for local planning assistance, the submission of a comprehensive State study of (1) the allocation of planning and land-use control powers and other decisionmaking activities significantly affecting land use within metropolitan areas, (2) the need for regional decisionmaking or regional review of local decisions within such areas, (3) the need for State action to redistribute control powers, and (4) such other matters as may be required to assure more orderly urban development. Such study should be submitted within a reasonably short period after promulgation of the Secretary's requirements and should be pub-

lished and distributed within the State. Revisions of such studies should be undertaken not less than every 5 years and should report progress made toward implementing recommendations contained in previous studies.

The specific manner in which land-use decisionmaking power should be reallocated will not be the same everywhere. States differ, and a variety of approaches and experiments is in order. Beyond these first steps, much more undoubtedly needs to be done. For this reason, it is important that States which have not already done so begin to examine their own needs carefully. The Federal investment and interest in land-development policies and practices justifies a Federal effort to encourage such examinations. The examinations should not be one-time efforts. In view of the importance of governmental structure as it relates to land-use development guidance, it is necessary that periodic reevaluation be made of progress or lack of progress and that fresh ideas be brought to bear as circumstances change.

#### **Recommendation 1(d)—Restructuring local planning and development responsibilities**

**The Commission recommends that State governments enact legislation authorizing but not requiring local governments to abolish local planning boards as traditionally constituted.**

Planning boards are often concerned with three different types of activities. *First*, they may be charged with performing administrative functions—including review of subdivision plats, site-plan review, and approving or making recommendations on special exceptions, variances, and rezonings. *Second*, they may prepare plans and policies for community development. *Third*, they may serve as advocates for a comprehensive approach to problems of community development, acting essentially as citizens' advisory commissions.

In many communities, there is little justification for the continued use of planning boards in performing the first of these activities. Administration of land-use controls should be the job of paid professionals under the general direction of elected officials. The fragmentation of administrative activities is, moreover, a source of redtape and expense which should be eliminated to the extent possible. To this end, Commission recommendation 3, in chapter 5 of this part, proposes that localities prepare unified development codes, which would combine all development regulations and which would be administered by a single agency. And finally,

the administrative workload of planning boards has all too often left them little time for planning.

In their second role, as semi-autonomous policymaking bodies, planning boards too often operate inconsistently with principles of democratic government. Planning functions were originally lodged in independent planning boards as part of a general movement in the 1920's to isolate important activities from the "corrupting influence" of politicians. It now seems clear that assigning important policy decisions to such bodies reflects a very pessimistic view of the political process or (if pessimism persists) that the isolation is often impossible in practice. The formulation of plans for a community's future growth and development is the most basic kind of political decision. This is not to say that there is no need to bring planning expertise and staff work to bear on major planning decisions. It does suggest, however, that planning directors and their staffs should be directly responsible to the governing body or chief executive.

In their third role, as advisers or advocates, planning boards often perform a most useful function. Although some communities may prefer to rely on ad hoc task forces and other devices to achieve citizen advice and participation, many will conclude that the usefulness of planning boards warrants their continuation in an advisory role. Governing bodies, overburdened by day-to-day problems, are seldom able to devote sufficient time to the planning process. Where planning boards have been able to spend substantial time planning, they have often provided an important source of balance in the community's approach to development decisions, presenting alternatives and providing the governing body and chief executive with analyses of the long-term effects of various decisions. Many communities will find it important to retain planning boards in this advisory capacity, while relieving them of administrative burdens and making clear that their basic role is advisory.

#### **Recommendation 1(e)—State recognition of local land-use controls**

The Commission recommends that State governments enact legislation granting to large units of local government the same regulatory power over the actions of State and other public agencies that they have over those of private developers.

Local governments must be given new powers and resources if they are to have a realistic opportunity to seize the needed initiative. As already noted, localities in a number of States have only limited power to guide development

initiated by governmental agencies. Many of the most important decisions affecting a locality are such decisions. A major reason for the lack of such power is a proper State concern that local self-interest might override the legitimate interests of another local government or of the State itself, and present statutes normally do not provide effective machinery for the resolution of interlocal and State-local disputes.

If local government is in fact, and not merely in theory, to control its own destiny and shape its own urban environment, its policies must not be needlessly thwarted by actions of other local governments or of State and Federal agencies whose activities significantly influence its development. In short, it must have power—even if necessarily limited power—over all development within its boundaries. Lip service to the ideal of local control without effective action to assure it will not lead to satisfactory results. At the same time, however, it must be clear that certain State and Federal policies, such as those relating to free choice for persons at all income levels, take precedence over local policies. (See recommendation 3.)

The foregoing recommendation is designed to give local governments the power they need. It should be subject to certain conditions, however; for administrative reasons, such power should not be extended to small governments, nor should such powers be given to any government in the absence of adequate machinery for the reconciliation of interlocal and State-local disputes such as that described in recommendation 2. The recommended local power should be in addition to, not in place of, review powers of metropolitan or regional planning agencies.

A recently adopted Federal statute provides for important local control over Federal installations.<sup>1</sup>

#### **Recommendation No. 2—Establishment of State agency for development planning and review**

The Commission recommends that each State create a State agency for planning and development guidance directly responsible to the Governor. The agency should exercise three types of functions: (1) research and technical assistance to localities in land-use planning and control; (2) the preparation of State and regional land-use plans and policies and (3) adjudication and supervision of decisions by State and local agencies affecting land use.

Even if development guidance powers are denied to the smallest municipalities, regulating governments will be making decisions having significant effects on development outside their

<sup>1</sup> Federal Urban Land-Use Act, 82 Stat. 1104 (1968).



own borders. It is becoming increasingly apparent that many of the most important problems facing our cities—pollution, open space, transportation—cannot be neatly segmented for solution by reference to municipal borders. States, regional governments of general jurisdiction, or both, must accordingly take a more active role in planning for regional needs and overseeing local decision-making. At the present time, State policy and supervision in the land-use control area is expressed almost entirely in enabling acts delegating responsibility to local governments, and in the decisions of State courts. The courts are not policymaking agencies and cannot effectively resolve policy conflicts between different jurisdictions and agencies or determine the “conformance” of particular regulatory decisions to general plans.

The State agency proposed here should conduct research and studies pertaining to land use and development. It should prepare plans for the state as a whole and for regions or metropolitan areas within the state. Such plans should be made with recognition that primary responsibility for local development should rest with local government and should accordingly concentrate on those issues demanding regional and interregional perspectives. Regional transportation, open space and housing plans, and plans for the size and form of metropolitan areas, and the location of new towns or intermediate growth centers, are among the most important examples.

Such plans should be presented to the Governor and legislature for review and action, and, once approved, become official guides for State and local agencies. The State planning agency should be authorized to adopt regulations to assure that local actions are broadly consistent with State and regional plans. In addition, the agency should furnish data and technical assistance to localities and serve as the State’s 701 agency for the allocation of planning grants.

The agency should also perform adjudicatory functions with respect to specified types of land-use decisions. On such matters, its consideration should be a prerequisite to judicial review. The agency should deal with all issues presently considered by the courts and should also determine (1) the conformity of local plans and actions with plans and policies for the larger region to which the locality belongs; (2) the conformity of particular regulatory decisions with approved local plans and policies; (3) the conformity of actions by State agencies with State, regional, and local plans; and (4) the fair treatment accorded affected persons. The agency should have authority to review local decisions and decisions by State agencies on its

own motion or on appeal by an affected person, agency, or local government. It should be empowered to substitute its decisions in adjudicatory matters for those of the locality or agency. The agency should also establish procedural rules relating to such matters as notice and conduct of hearings, compelling attendance of witnesses, recordkeeping, and the like for the guidance of local decisionmaking bodies.

Among the decisions which the agency might properly review are those involving (a) developments containing more than a specified number of dwellings or providing employment for more than a specified number of employees; (b) the location of major regional facilities, and (c) land use within some specified distance from State and Federal public facilities, including highways and other utilities.

Because many problems are metropolitan in scope and could be handled effectively and with greater responsiveness at the metropolitan or regional level, the creation of such a State agency should not inhibit the later formation of popularly elected regional governments. Legislation should make clear that where a popularly elected regional or metropolitan government exists or comes into being, it, rather than the State agency, should have power to adopt plans for the region and to assume certain supervisory powers over localities within its area.

#### THE ROLE OF LAND-USE CONTROLS IN EXPANDING HOUSING CHOICE

The social and economic problems of the “white noose,” described earlier in this report, are in part a result of the operation of land-use controls. Exclusionary phenomena are in one sense symptoms of a conflict between two of the most fundamental goals of orderly urban development: (1) the quest for environmental *quality*; (2) the quest for lower costs to enable more people to obtain at least a minimum level of accommodation.

Both of these quests actually relate closely to problems of individual choice. As a nation, we pride ourselves on the provision of opportunity for individual choice and on the fact that many individuals have power to achieve their choices. The quest for quality is shaped by the fact that every individual is dependent for his environment on the acts of his neighbors; he cannot achieve his own choices without placing some limits on the actions of others. A proper recognition of differences in individual taste dictates that society should encourage and provide opportunity for the varied physical environments that different people prefer. Zoning, however ineffectively, has been one of the major tools used by government to protect and promote this

diversity. On far too many occasions, however, it has precluded the diversity and choice which the market might otherwise provide.

The conflict between quality and quantity objectives is at the heart of several problems which this Commission has considered, but the most important of these is the suburban-central city color barrier. And there is no single clear reconciliation of these objectives that applies in every location. Nevertheless, it is possible to establish some general principles that may help to determine solutions in particular situations:

(1) The power of government should not be used for the purpose of creating social or economic segregation. For example, if the residents of an established neighborhood like it both because of its freedom from traffic and its freedom from ethnic minorities, their power to deal with the traffic should be on a different footing from their power to deal with the ethnic minorities.

In effect, the right of the minority individual to achieve his choices must be given priority over the desire of the neighbors to maintain "quality" by keeping him out. This principle, of course, is well established in such matters as the invalidity of racial zoning or of government enforcement of racially restrictive covenants. There are many gray areas, however, in which a regulation with a purported "physical" objective (e.g. a minimum house or lot size) may have a dominant motive of exclusion.

(2) Minimum physical standards and requirements must be set with explicit recognition of the impact of those standards on housing cost and thus on the power of the poor to achieve the kind of homes they want. Physical standards are, of course, intentional limitations on individual choice; minimal building code provisions prevent construction of buildings that are unsafe. If such provisions raise the cost of construction beyond the ability of many individuals to pay, the answer presumably is to assure that those individuals have more buying power rather than to permit the construction of dangerous buildings.

In fact, however, most residential zoning standards are above the minimum needed to achieve health, safety, and some minimum of amenity. This presents greater problems. First, standards obviously exclude people who do not choose to live in the type of area specified; if standards require single-family, detached houses, they exclude people who do not want to live in single-family, detached houses. In addition, however, by raising housing costs, these above-minimum standards may exclude people who would like to live in such an area, but do not have the economic power to do so. It is this effect, extended over very large por-

tions of our metropolitan areas, that is the heart of the regulatory aspect of the "white noose" problem.

(3) Within already developed neighborhoods there is a legitimate need to protect the established physical pattern and thereby the expectations of those who live there. There is, for example, seldom a public need to jam an apartment building on a small tract in the midst of an established single-family neighborhood, even if it could be shown that the cost of each apartment would be substantially less than that of the single-family houses. The expectations of neighbors can normally be given priority in such circumstances.

(4) In areas of major change, however, including both the urbanization of formerly agricultural land and the redevelopment of established urban areas, the law must accord broad opportunity for varied compromises between quality and quantity. This is particularly true in cases of projects that are large enough to create their own environment, so that the expectations of neighbors can legitimately be given substantially lower priority than the wishes of prospective residents.

Reforms in the allocation of controls will help by making regulating governments more responsive to a broader cross-section of society and increasing their ability to see their place in the metropolitan setting. So will the modification of existing housing programs and the creation of State, country, or multi-county housing agencies already recommended in part II. But there is an immediate need for explicit public policies to assure that land-use controls will be exercised with a view toward assuring a wider dispersion of sites for housing of all types and for ending the wasteful and disruptive separation of men and jobs.

The problems of exclusionary land-use controls, as noted in the preceding chapter, often reflect the fiscal squeeze in which most local governments find themselves. The incentives to increase the tax base and limit expense-generating development too often prove irresistible. Each locality becomes an orphan in the fiscal storm, and efforts by individual localities to ignore the fiscal aspects of land use controls, while helpful in solving long-term metropolitan housing problems, may have disastrous short-term consequences for the local budget.

Reducing incentives for fiscal zoning by attacking its underlying cause, the poverty of local governments, is the most effective approach to ending exclusionary practices. In part IV of this report we consider in detail the problems of government finance. Our recommendations for dealing with these problems—including reduced reliance on property taxes, a greater as-



sumption of government expenditures by the States and Federal Government, and a Federal revenue-sharing program—have important implications for expanding housing choice.

**Recommendation No. 3—Assuring greater choice in the location of housing**

The Commission recommends that governments at all levels adopt policies and implementing techniques for expanding the choice of persons of all income levels in the selection of their homes.

**Recommendation 3(a)—Assurance by local governments of housing variety**

The Commission recommends that State governments amend State planning and zoning enabling acts to include as one of the purposes of the zoning power the provision of adequate sites for housing persons of all income levels and to require that governments exercising the zoning power prepare plans showing how the community proposes to carry out such objectives in accordance with county or regional housing plans, so that within the region as a whole adequate provision of sites for all income levels is made.

Although the demands of quality furnish important incentives to plan the location and timing of development, those of cost and quantity require that regulating governments have the responsibility to assure that sites are in fact available for all the housing (meeting minimum standards) that public and private builders can provide. For example, the legitimate desire to guide the form of the metropolitan area and to provide low-density areas for those who want them must no longer be used as an excuse for failing to provide sites for apartments and mobile home parks. At present, localities are too ready to say that these facilities must go “somewhere else” without specifying where that somewhere else is.

Within major new developments, developers should be aided and encouraged to provide for a mixture of dwelling types and housing price levels for the explicit purpose of minimizing any natural market tendency toward neighborhood segregation by income levels. Such approaches, relying fundamentally on the use of professional urban design skills in place of many present density and dwelling-type controls, are also believed to hold greater promise for economic and esthetically satisfying development.

**Recommendation 3(b)—Multicounty or regional housing plans**

The Commission further recommends that State governments enact legislation requiring that multicounty or regional planning

agencies prepare and maintain housing plans intended to assure that sites are available within each metropolitan area for development of new housing of all kinds and at all price levels. In the absence of a politically responsible multicounty or metropolitan-wide unit, the State should approve such housing plans for each metropolitan area.

An important step toward encouraging the development of metropolitan housing plans was taken early in 1968 by the Department of Housing and Urban Development in requiring, as a condition of receiving 701 planning assistance funds, that metropolitan planning agencies prepare such plans. The Housing and Urban Development Act of 1968 made housing plans essential elements of all comprehensive land-use plans developed with 701 assistance. The act will provide a major impetus toward achievement of this recommendation, but State action along these same lines will help assure rapid progress.

One special difficulty in assuring that such plans will be useful is that they apply to regions or metropolitan areas in which there is often no popularly elected general government. In the absence of such a body—given the broader-than-local nature of the plan and the importance of political approval of such plans—the State government should assume responsibility for providing the necessary political endorsement of the plan.

**Recommendation 3(c)—Collection of regional housing data**

The Commission recommends that State governments enact legislation directing State or regional planning agencies to prepare and maintain, on a periodic basis, data on the general availability of housing and housing sites for persons of various income levels. The commission further recommends that the Congress provide financial aid to the States to assist them in carrying out these functions.

One of the greatest obstacles to legislative or judicial treatment of housing site shortages is the lack of information on the supply of, and demand for, these sites within metropolitan areas. A developer may assert that local regulations bar him from building moderate-cost housing—either directly or through raising the price of available sites by limiting the overall supply. Local officials may assert, on the contrary, that ample sites are available elsewhere and that the developer has merely chosen an inappropriate location. Normally, it is unclear who is right because the information on regulations, site locations, and their economic availability has not been compiled. Compilation of

such materials, sufficient to give a general picture of the situation, appears to be the first step toward dealing effectively with the problem.

**Recommendation 3(d)—Public acquisition of housing sites**

The Commission recommends that State governments enact legislation authorizing State, regional, and local agencies to acquire land for present or future use or disposition to provide sites for low- and moderate-income housing.

In some situations it may be necessary for governmental agencies to act themselves to provide sites for housing at various price levels. A local government, for example, might thus satisfy its obligation to assure that sites were available without jeopardizing the validity of its regulations elsewhere in the community. It is not uncommon, of course, for local governments to provide such sites for new industrial development, and this recommendation would merely extend this practice.

**Recommendation 3(e)—Establishment of State policy on housing near employment centers**

The Commission recommends that the States adopt resolutions making it official State policy to encourage the provision of housing for employees of all income levels in areas reasonably close to places of employment.

As we have noted, the regulatory powers of local governments in a number of metropolitan areas are being used to bar vast land areas to apartments, mobile home parks, and other dwellings that can meet minimum standards of health, safety, and amenity. Practices of this kind are socially deplorable. Economically, they are especially harmful where they have the effect of separating lower income persons from job opportunities. This regulatory conspiracy against low-income housing must be broken.

The Commission proposes action by the States to assure State review of any local zoning decision or a building permit for the construction of any private place of employment which will employ a substantial number of employees for the purpose of determining whether adequate housing and housing sites are available in or near the locality for persons of all income levels to be employed by the installation. A finding that such housing or sites do not exist will not necessarily result in a prohibition of the zoning or permit issuance if compelling reasons exist for locating the installation in that particular place and for the absence of such housing and

sites, and if a showing is made that adequate transportation facilities exist or will be provided for prospective employees.

**Recommendation 3(f)—Establishment of Federal policy on housing near employment centers**

The Commission recommends that the Congress amend the Housing Act to assert, as a matter of national policy, the desirability of providing for housing of employees of all income levels in areas reasonably close to places of employment, and that immediate executive action be taken to assure the availability of housing sites around new Federal installations.

The Commission urges the President, by executive order, to require that prior to final determination of the location of any major new Federal installation (that is, one employing more than 50 persons) in a metropolitan area, the Secretary of HUD be required to find and certify to the agency or department concerned that there is an adequate amount of existing housing or housing sites in or near the locality for persons of all income groups to be employed by the installation. Such certification should be necessary before any locality may be selected except where national emergency needs require an exception.

Such an executive order should also provide that no Federal contract shall be entered into with a private firm for work to be undertaken at any factory, plant, or other location, employing more than 100 employees, and constructed after issuance of the order, in an area which does not have adequate housing or housing sites for employees of the plant or factory within a reasonable distance from the place of employment. The Office of Contract Compliance or some other appropriate agency should be charged with enforcing this provision of the order and should be authorized to request the assistance of the Secretary of HUD in making the required determination.

**Recommendation 3(g)—Facilitating court challenges to zoning actions**

The Commission recommends that the Justice Department conduct research into the constitutionality (under the Federal Constitution) of various forms of exclusionary zoning—e.g., large-lot and minimum house-size zoning—and serve as *amicus curiae* in actions brought by aggrieved parties challenging such actions where they are considered by the Department to be unconstitutional.

The Commission further recommends that Congress enact legislation granting standing



**in the Federal courts to local governments whose citizens are aggrieved by exclusionary land-use regulations of other governments for the purpose of challenging the constitutionality of such requirements.**

Another important approach to the problems of exclusionary zoning involves court action to challenge zoning ordinances and decisions which do not conform to official housing plans or which have the effect of excluding lower income families for reasons unrelated to health and safety, and without providing adequate sites for housing such families. The requirement of regional housing plans (recommendation 3b), collection of regional housing data (recommendation 3c), and expression of State and Federal policies on the location of housing near employment facilities (recommendations 3e and 3f) will greatly assist litigants. But even with such assistance, the persons most affected by exclusionary zoning practices, the excluded persons themselves, often do not have the time, money, or knowledge necessary to pursue such actions. The cities whose citizens are affected, as well as the Federal Government, have an important interest in assuring freedom of movement and residence and can be effective forces in bringing into the open the social and economic implications of exclusionary suburban land-use and housing practices.

#### TECHNIQUES FOR GUIDING URBAN DEVELOPMENT

Improving the local government framework will do much to solve the most difficult problems of development guidance. But even the optimum structural arrangements cannot produce quality development without appropriate techniques of implementation.

Regardless of the type of area, the predominant pattern for guiding development at the present time consists of police-power regulations initially formulated to deal with small-scale changes within built-up areas. Such guidance is limited, both in outlook and method, by the desire to avoid paying compensation for any of the monetary losses stemming from the regulations. The complaints about the regulations fall into three broad categories:

The "old criticism" that regulations do not sufficiently protect environmental quality and do not prevent decay in built-up areas or sprawl in undeveloped ones;

The "new criticism" that present regulatory techniques do not permit sufficient flexibility and variety in design and that they impose needlessly rigid burdens on the designers' work;

A procedural criticism that the regulations operate unfairly and often seemingly without reason, rewarding some and penalizing others without clear evidence of public benefit. Instances of outright corruption present extreme symptoms of this problem.

The Commission's conclusions, reflected in the recommendations that follow, are essentially the following:

There is ample evidence that both the new and old criticism are valid; that the regulatory system simultaneously provides an insufficient barrier against decay in some places, while imposing rigid barriers against innovation and variety in others. Although both these weaknesses are to some extent inherent in any development guidance system that reflects tension between public and private choices, substantial improvement is possible if guidance techniques are more effectively related to the widely different contexts (e.g., center city and urban fringe) in which they must operate. The broad nature of this adjustment is as follows:

(1) In undeveloped areas, great promise lies in encouraging private developers to build projects that are large enough to create their own environment. In such a project, with the aid of his own professional designers, the developer can be freed from many of the regulations that appear necessary to govern the relationships between different owners of small lots.

(2) In built-up areas, in dealing with the gradual change and small-lot development, the development guidance system must provide for a complicated process of protection and stimulation—protection against development that will worsen environmental quality and stimulation of renovation, rebuilding, and the most effective use of vacant land. The deliberate relaxation of land-use regulations, such as height limitations and offstreet parking requirements, for the purpose of stimulating small-scale development in such areas, is likely to have relatively limited long-run promise. Accordingly, and because of the all-too-easy administrative confusion between desirable "stimulation" and undesirable intrusion of inappropriate land uses, a fairly firm regulatory approach—resembling conventional zoning—is appropriate for most such areas.

(3) Effective development guidance, both in controlling the timing and location of explosive development pressures, and in stimulating such pressure in built-up areas where none exists, requires the use of tools that go beyond noncompensative regulation. Governments should provide for the payment of compensation in certain







**MILLIONS OF AMERICANS** endure miserable housing. The Commission's call for action—to reduce housing costs, enforce housing codes, streamline local government, unfetter the building industry—and so forth—is in behalf of those who huddle in front of gas ovens in unheated apartments, who do their laundry in a bathtub, or who sleep beside walls that let in wind and vermin.





**LARGE POOR FAMILIES ARE SPECIAL VICTIMS** of the shortage of decent housing. In seven widely scattered cities there was a gap of 80 percent between the number of needy large families (with five or more members) and the available supply.

*There is escape for some . . .*





... VASTLY BETTER OFF IN PUBLIC HOUSING than in the dark, ugly slum from which they came are this mother and her seven children. Public housing, though far from perfect, has been the one best answer for families who cannot afford decent shelter.



MAN HAS CREATED AN INHUMAN HABITAT for too many city dwellers. But these conditions are not irreversible. Confronting air as badly polluted as at Gary, Ind., industrial and political leaders of Pittsburgh cleaned up their city.

CLUTTER AND UGLINESS are difficult challenges for governments. Yet esthetics is a field that lends itself well to citizen action. If enough people care and act, our water, air, and urban landscapes can be made and kept wholesome.







**OPPORTUNITIES LOST AND CITY COSTS MULTIPLIED** are reflected in vacant sites and low-rise buildings surrounding a central city skyscraper. Urban sprawl makes pretty light patterns but spells overextended utilities, costly transit lines and disparities between tax-poor and tax-rich jurisdictions. Housing and other social needs suffer from wasteful land policies.

**RESIDENTIAL SEGREGATION BY INCOME**  
CLASS has been fostered by Federal regulations, restrictive codes, and fiscal zoning. Developers catering to buyers of \$50,000 to \$100,000 homes, as in this small plat with 29 swimming pools, can neglect the need for balanced communities.

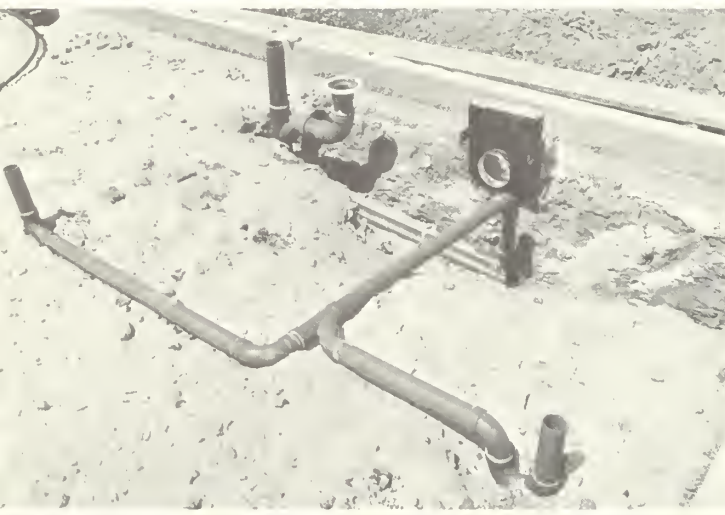


**A RETURN TO THE MELTING-POT CONCEPT** was one aim of the new town of Reston, Virginia, which offers a wide variety of housing types in a broad price range—all close to the town center.





**A TECHNOLOGICAL REVOLUTION** was dramatized in this LIFE photo in 1952 showing the many plastic products used in American homes. Sixteen years later, however, many home builders are still barred from using plastic drain pipes that would bring cost and performance benefits.



**LABOR COSTS WERE REDUCED 10 PERCENT** by using preassembled roof trusses and laminated beams, said the builder of this house. Yet labor management agreements, building codes and other restrictions often conspire against the use of many such methods and products which could mean more and cheaper housing.







PREFABRICATION takes many forms.

Shop-built panels speed work on conventional looking apartments (*right*). A suburban complex (*above*) was put together by using massive sections unloaded by crane from flatbed trailers. Chicago is introducing housing units complete with factory-installed wiring, plumbing, and exterior and interior finish, adapting the mobile home idea to an urban setting (*below*).







INTIMATE, IMAGINATIVE DESIGN in St. Louis for moderate income families shows that city housing need not be only massive high-rise apartments. It can rehabilitate neighborhoods where old buildings remain, closed off at the street, and also may be converted into greenery and walkways like this.



**FAILURE TO INCREASE JOB OPPORTUNITIES** for ghetto residents while increasing housing construction would be both cruel and dangerous. Barriers against Negroes in the building trades have begun to fall, but eliminating discrimination will require a vigorous national effort.

**INHOSPITABLE, COLD, AND UNFRIENDLY** are terms used to describe today's cities, but these chess players who were provided with a happy spot in America's biggest city would contest the notion that the human element need be forgotten.







A MASS PRODUCED CIVILIZATION too often produces a monotonous sameness of housing, street layouts, and life styles. Because a Polish group in Detroit keeps alive its folk customs, both they and their community are richer. Diversity should be cherished as cities are rebuilt and improved.





CHARACTERISTIC OF SLUMS are signs of neglect and filth that carry the constant message to people forced to live there that life is a mess and that neighbors, property owners and the city at large are not concerned. Rich and poor alike suffer from the physical and moral decay.

*For one answer . . .*







... IMAGINATIVE PLANNING AND HARD WORK by city workers, who team up residents of blighted areas with construction crews, convert eyesores and hazards into sitting areas, tot lots, gardens, playgrounds. Neighbors also participate in supervision and watchful maintenance in Philadelphia's vest pocket park program.





COMMISSION MEMBERS SPENT TWO YEARS conducting research, holding public hearings and investigating firsthand the housing problems of America. Members are (left side, from the top) Woodbury, Feinberg, Vandergriff and Downs; (top group, left to right) DeGrove, Baker, Executive Director Shuman, Chairman Douglas, Johnson and Ehrenkrantz; (right side, from the top) Lyons, Black, Sanders and Davis. In the above photo are Mrs. Smith (center) with O'Neill to her right and Ravitch to her left, and staff directors.

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instances in which regulation substantially reduces property values or in which regulation proves impractical because large value reductions would result.

(4) Fairness demands that firm rules be established for allocating the costs of development between the locality and the developer. Moreover, such rules should apply statewide so as to discourage competition among localities in enticing or excluding various types of development.

#### *Techniques in undeveloped areas*

"Urban sprawl" is the characteristic complaint about recent urbanization of undeveloped areas. The objections to sprawl—whether directed at the efficiency of public services or at the intangibles which lend quality to urban life—appear to be fundamentally concerned with a lack of coherence in development.

The problems of guiding development in undeveloped areas occur at two quite different scales. One is the metropolitan or community scale, involving the broadest questions of types, location, and timing of development. The other is a much smaller scale, involving relationships between neighboring landowners.

Many of the Commission's recommendations dealing with the Government structure for development guidance have been directed at the first scale. They are aimed at allowing for effective cooperation in solving metropolitan problems by reducing the number of jurisdictions possessing control powers, creating a framework for State and regional plans, and providing mechanisms for resolving conflicts which affect a region's growth.

At the metropolitan scale, the present techniques of development guidance have not effectively controlled the timing and location of development. Under traditional zoning, jurisdictions are theoretically called upon to determine in advance the sites needed for various types of development. But, as we have seen, the difficulty of predicting has turned many governments to the "wait and see" approach. In doing so, however, they have continued to rely on techniques which were never designed as timing devices and which do not function well in controlling timing. The attempt to use large-lot zoning, for example, to control timing has all too often resulted in scattered development on large lots, prematurely establishing the character of much later development—the very effect sought to be avoided. New types of controls are needed if the basic metropolitan scale problems are to be solved.

At the smaller, neighborhood scale, past efforts have been directed at regulating relationships among landowners by use of rigid requirements governing the use of each individual lot.

Such an approach was perhaps necessary at an earlier time when development took place on a very small scale, but the lot-by-lot regulatory scheme prevented the application of design skills to create a quality environment. While this remains a valid approach in developed areas, today there is great promise in promoting the unified planning of entire neighborhoods, thereby allowing the developer more flexibility in the way he relates structures and uses to one another.

#### **Recommendation No. 4—Unified planning and design of new neighborhoods**

The Commission recommends that States enact legislation enabling localities to encourage unified planning and design of new neighborhoods and to prevent wasteful and unattractive scattered development. Specifically, the Commission proposes the following actions:

##### **Recommendation 4(a)—Restriction of development through holding zones**

The Commission recommends that State governments enable local governments to establish holding zones in order to postpone urban development in areas that are inappropriate for development within the next 3 to 5 years. Local governments should be authorized to limit development within such zones to houses on very large lots (e.g., 10 to 20 acres), agriculture, and open space uses. The State legislation should require that localities review holding zone designations at least every 5 years.

Many local planning policies could be effectively implemented if local governments had power to establish "outer limits," beyond which urban development could not go during some planning period. The holding zone technique would not be aimed at permanently restricting land to open space uses but rather at containing development for limited periods and thereby preventing scattered development well beyond existing developed areas.

##### **Recommendation 4(b)—Regulatory process for planned unit development**

The Commission recommends that State governments enact enabling legislation for, and local governments adopt, provisions establishing a regulatory process for planned unit developments. Such legislation should authorize provisions to vary according to the size of projects (e.g., to permit high-rise buildings or light industry only in projects of more than a specified size).

Planned unit development provisions enable developers of large projects, subject to design



or site plan review by public agencies, to deal with many of the small-scale relationships by themselves. Rigid rules which seem essential where development takes place on a lot-by-lot basis in order to protect the owner of one small lot from the actions of his neighbors, are not necessary. Seeing his project as a unit, a neighborhood or community in itself, the developer is able to plan for mixtures of building types and uses and for placement of structures in a way that could not be permitted under more traditional and rigid rules premised on protecting the individual lot. Thus, developers are able to satisfy a broad range of individual choices depending on differences in individual tastes and living styles. The planned unit development approach also creates at least the opportunity for avoiding many of the most difficult decisions that presently affect the value of small lots. The game of "who gets the gas station" need not be played so often if it is clear that the developer of a substantial project may include retail uses to serve his new residences. Furthermore, developers of large projects are encouraged to employ the services of qualified designers whose knowledge and imagination can be put into valuable service.

The benefits of the planned unit development process are particularly great when the developer is able to operate at a very large scale—when he, in effect, can plan and build a whole community or neighborhood. A number of obstacles, however, prevent most developers from operating at this scale. These include problems of land assembly, financing, and lack of technical know-how. Some assistance appears to be necessary if these difficulties are to be overcome.

It is important to note that promoting large-scale development should not mean that small builders will no longer make significant contributions to the development process. The important object of a planned unit development approach is not to limit construction within the development to a single builder, but rather to provide for a unified approach to the planning of the project. Once the plan is developed, any number of builders can participate in the actual construction.

#### **Recommendation 4(c)—State authorization for planned development districts**

The Commission recommends that State governments enact legislation enabling local governments to classify undeveloped land in planned development districts within which development would be allowed to occur only at a specified minimum scale. Such statutes should make clear that such minimums could be sufficiently large as to allow

#### **only development which created its own environment.**

Even a community which provides for outer development limits, as recommended in 4(a), will necessarily provide ample room for development within such limits to avoid creating monopoly situations. Consequently, there will still be large areas within which scattered development could occur. Unless a community is willing to buy land suitable for development, its greatest opportunity to prevent undesirable scatteration in these areas appears to lie in provisions that *require* that new development in specified undeveloped areas take place at a fairly large scale. In effect, the community is deciding that scattered neighborhoods or communities can furnish more nearly acceptable amenities and facilities than can scattered individual buildings.

Such a requirement will not of itself guarantee quality development. At the same time, however, by insisting on unified planning of whole neighborhoods, it can afford an opportunity to developers for imaginative design which the planned-unit development approach allows.

#### **Recommendation 4(d)—Public assistance for land assembly**

The Commission recommends that State governments enact legislation authorizing local governments of general jurisdiction to use the eminent domain power for the assembly of land needed for large planned-unit developments. Such legislation should include a procedure whereby such power can be used to assist private developers to assemble land for approved development. Any such assistance should be conditioned on the conformity of the project with regional plans intended to assure the availability of housing for low- and moderate-income families, and otherwise to insure that the powers are exercised in the public interest.

The land assembly procedure, for use in both developed and undeveloped areas, might provide that when a private developer has assembled land constituting some substantial percentage (e.g., 80 percent) of the total land in an area to be developed or redeveloped in accordance with local plans, the government should assist him in completing the assembly by use of its eminent domain power if that is necessary.<sup>2</sup> To qualify for such assistance the developer should be required to meet certain conditions, including: (1) providing evidence that the remaining land cannot be assembled at a

<sup>2</sup> See Marion Clawson, "Urban Renewal in 2000," *Journal of the American Institute of Planners*, May 1968, p. 173.

reasonable price without the government's assistance; (2) submitting an acceptable development plan for the proposed development and evidence of its compliance with local and regional plans and policies, and (3) submitting a plan for the relocation of persons displaced by the taking.

The successful creation of a planned-unit development or new town depends in substantial part on the ability of the developer to acquire land quickly at a reasonable price. Fragmented land ownership, even in undeveloped areas, often makes this impossible, and developers are forced to follow the easier and less desirable path of producing small-scale, scattered developments. It is imperative, therefore, if a more rational and desirable form of development is to occur and if property is to remain largely in private ownership, that the government assist private developers in land assembly. Any such program should, of course, provide safeguards for present owners in terms of adequate compensation and assistance in relocation. It should also be conditioned on the government's assuring that desirable development will take place once the assistance has been rendered.

In addition to the problem of land acquisition, the few "new towns" which have been attempted as an alternative to the present pattern of urban sprawl have faced severe difficulties in obtaining needed long-term capital for full project implementation. The vast initial sums needed for planning, land acquisition, and development are usually far beyond the financial capabilities of most developers. There is also a long period in which little or no cash return is realized. Some form of financial assistance appears essential if many large-scale projects are to be built.

One form of assistance already has been adopted as title IV of the Housing and Urban Development Act of 1968. In essence this approach would have the Federal Government guarantee the obligations of developers, thereby facilitating long-term financing at lower interest rates. It would also provide supplementary grants to State and local public bodies receiving water and sewer grants and open-space grants for a new community. The act is an important start toward facilitating large-scale development and deserves to be funded. Experience with it will undoubtedly suggest additional needs and problems, requiring changes and additions to the program.

The Commission believes that any Federal program to aid large-scale development should relate the desire for quality development with a need to solve some of the basic social problems confronting the cities. Large-scale projects, under unified planning and control, afford an

important opportunity to create mixtures of housing types and to provide an environment in which people of varied income levels can live. For this reason, Federal aid should be conditioned on building housing in such communities for persons of low and moderate income. The new act requires the Secretary of HUD to determine that any new community for which assistance is sought will provide for a balance of housing for families of all income groups. The Secretary should vigorously enforce this requirement.

#### **Recommendation No. 5—Assuring fairness and equality of treatment in the application of standards**

The Commission recommends that State governments enact legislation establishing clear policies as to the allocation of various costs between developers and local governments. Such legislation should specify the kinds of improvements and facilities for which private developers may be required to bear the costs and the manner in which such obligations may be satisfied, and local governments should not be permitted to deviate from such State policies. As a minimum the legislation should require that developers provide local streets and utilities and dedicate land (or make payments in lieu of dedication) for rights-of-way, utilities, open space, recreation, parks, and schools, provided that such facilities will directly benefit the development and be readily accessible to it.

As has been noted, the relative contributions of the public and private sectors to the cost of facilities serving development have fluctuated over time. Today developers are generally required to bear the costs of right-of-way and utility improvements, including streets and sidewalks, street lighting, sanitary sewers and drains, water mains, fire hydrants, and street signs. There is a growing trend for localities to require dedications of land, or payments in lieu of dedications, for such purposes as parks and school sites.

Regardless of the merits of any particular decision as to who shall bear what costs, there is an urgent need for the States to clarify the rules and make them uniform throughout each metropolitan area. Developers should know in advance what costs they will be expected to bear and neither they nor public officials should be forced to submit to a bargaining process in which approval of a project may turn on how much the developer is willing to provide in the way of improvements which would otherwise be an expense of the local government.



Costs do not, of course, disappear merely because they are shifted. Where private developers are required to dedicate land or make payments in lieu of dedication, such costs will be passed on to their customers. Where the local government assumes the responsibility for certain costs, the local taxpayers bear the burden. Arguments based on the "inherent fairness" of a particular allocation of costs between the developer and the locality are largely inconclusive.

As a practical matter, it makes much sense to require developers to provide the bulk of the facilities which will serve their developments. Land for open space, parks, recreation, and school sites is as integral a service need of developments as are right-of-way and utility improvements. Particularly as regards open space, parks, and recreation areas, failure to require dedication at the time of development too often means that such facilities will simply not be provided at all. In addition, some of the "fiscal zoning" incentive to stop new development will be eliminated if more costs associated with new development need not be borne by the taxpayers. To the extent that imposing costs on the developer prices housing beyond the reach of persons who should be subsidized, direct subsidies can still be provided.

#### *Techniques in built-up areas*

The protection and revitalization of established neighborhoods presents a different set of challenges from those of the urban fringe. When major changes are contemplated within these areas (that is, large-scale clearance and rebuilding) many of the same development opportunities exist that are found in the urban fringe. It is, of course, essential that the system for guiding and controlling development make possible full realization of these opportunities.

Nevertheless, most of the building and rebuilding in built-up areas takes place at small scale and within the context of what is already there. Naturally, local policy will be influenced by the quality of what already exists. A neighborhood that is physically sound and accepted by its residents as a satisfactory place to live often evokes a local policy that emphasizes the protection of what is already there. At the opposite extreme, a deteriorating area usually requires more emphasis on stimulation of building and rebuilding. Or a community may choose to permit or stimulate development for which there is market demand (that is, high-rise apartments) even in sound neighborhoods. The same is true in areas where no acceptable market pressures exist, where a vacant lot cannot economically be developed under zoning standards for residential use. In such situations, where

stimulation is the dominant need, a city may try to reduce the quality requirements (that is, raising density or removing off-street parking requirements), or it may conclude that the resulting buildings would only make problems worse. Although local policies vary widely, some mixtures of protection and stimulation, applied in varied amounts in varying places, lies at the heart of usual development guidance policy in built-up areas.

The proper balance between protection and stimulation is hard to strike. First, the governing body must determine what is best for the community. Second, it must consider fairness to the landowner. If it is best for the neighborhood to have the lot lie idle, what is to be done about the property-owner who must continue to pay taxes on it? This second question can never be wholly removed from a system of public regulations applied to private land.

From the public standpoint, the crucial factor in deciding between protection and stimulation is often that of sensitivity. This is particularly true in matters of use-mixing—proposals to introduce commercial or industrial establishments into predominantly residential areas. Is the person who is introducing the nonresidential use sensitive to the wishes of his neighbors? Or can he be forced into sensitivity by regulatory procedures? When sensitivity exists, for whatever reason, a great variety of activities and buildings can be combined into an exciting neighborhood. When sensitivity does not exist, however, the demand for stimulation and variety can accentuate the dangers of deterioration and decay.

One approach to this matter is suggested later in this report—a more active role in the control process for neighborhood bodies. Such an approach continues to rely on more traditional forms of control while recognizing a strong neighborhood interest in certain types of decisions. Another approach would be to create forms of land tenure which would recognize the interest of owners in what their neighbors do. Such tenure forms, which do not presently exist but which might resemble condominium tenure, might more effectively reconcile the conflicting interests of neighboring property owners than do conventional regulations. The objective of such tenure would be to leave the small-scale relationships among neighbors for resolution entirely within the private sector, while public regulation would continue to apply to the neighborhood as a whole. In addition to giving neighborhood residents greater control over minor land-use changes within their neighborhood, such tenure could include provision for cooperative maintenance of properties where owners desire such services.

Normally, any such changes in tenure should occur only with the consent of affected property owners. In "gray" or deteriorating neighborhoods, however, it may be advisable to compel tenure changes to assure the more effective maintenance which becomes possible when substantial blocks of property are maintained by a common agency.

**Recommendation No. 6—Strengthening development controls in developed areas**

The Commission recommends that States and localities take action to encourage new development in deteriorating built-up areas and to protect built-up areas which now provide a satisfactory living environment and whose protection is in keeping with local plans. Specifically, the Commission proposes the following actions:

**Recommendation 6(a)—Authorization of planned unit developments in built-up areas**

State legislation authorizing the use of planned unit development provisions by localities should extend to situations in which land is assembled in built-up areas, allowing developers the option of obtaining planned unit development review.

When a locality's policy is to permit or encourage major change or redevelopment of a built-up area, there is every reason to encourage development at substantial scale and to make special regulatory provisions for it. The advantages of large scale apply in this context quite as much as they do in the initial urbanization of undeveloped areas. Similarly, they are as applicable to private redevelopment as to public urban renewal efforts, where they have been recognized for some years.

The need for land assembly assistance is especially critical in built-up areas. Without it, the great bulk of private redevelopment will, of necessity, be on a very small scale. The approaches mentioned earlier in Recommendation 4 should also be available in built-up areas.

**Recommendation 6(b)—More effective powers and guidelines regarding variances, rezonings, and nonconforming uses**

The Commission recommends that the States enact legislation authorizing local governments (1) to impose substantive limitations on the power of boards of appeal to grant variances; (2) to provide effective procedures and aids for the elimination of deleterious nonconforming uses which adversely affect the environment, and (3) to establish formal rezoning policies as a guide to decisions on individual rezonings.

Particularly in "gray" areas, residents have repeatedly complained to the Commission about the intrusion of new incompatible uses and the failure of local governments to remove existing incompatible uses. Uses that generate heavy automobile traffic appear to be highest on the list of complaints. In the long run, the need is for mechanisms that produce more sensitive and sophisticated consideration of the environmental quality. In the short run, despite the rigidity of regulation that is inevitably involved, there is an apparent need to bolster the effectiveness of traditional zoning in certain respects.

Use variances present a particular problem. In many States, State law itself determines variance standards, and local governments are powerless to impose additional substantive limitations on the power of the board of appeals to grant variances. Proposals to eliminate existing nonconforming uses raise some of the oldest and most difficult of regulatory problems. In the first place, it is by no means true that neighborhoods will always benefit from the removal of nonconforming uses. The unavoidable imprecision of land-use regulation has been stressed. Sometimes, those regulations must, for administrative reasons, prohibit uses that could be quite compatible with the particular neighborhood—legal, as distinguished from functional, nonconformities. Some nonconforming uses, certain small delicatessens and grocery stores being perhaps the most common examples, are actually neighborhood assets, not liabilities. On the other hand, many others—that is, junkyards and garages—are plainly out of place in a predominantly residential neighborhood.

In the second place, elimination of established uses raises great problems of individual fairness. Many State courts have accepted the theory that an amortization period, giving the owner of a nonconforming use time for a reasonable return on his investment, makes it fair in a constitutional sense to require elimination of the use. Nevertheless, the practical opportunities for abuse of governmental power in these situations is substantial, and the danger is enhanced by the need to determine on a case-by-case basis whether the nonconforming use is, in fact, "harmful" to its surroundings. Does it generate traffic? Do the neighbors object to it? Would the land be put to some better use if the nonconforming use were required to terminate? Unfortunately, it is easy to confuse the answers to these questions with answers to questions about fairness to the owner of the nonconforming use.



The difficult problem, therefore, is to provide for neighborhood improvement but at the same time minimize unfairness to property owners. To accomplish this, States should authorize local governments to classify nonconforming uses by type. When any particular nonconforming use is chosen for elimination, the agency should be required to submit a written statement telling why it is deemed harmful and why any other nonconforming uses of the same type are being allowed to continue in the same neighborhood. Where termination is ordered, a reasonable period of amortization should be permitted or compensation paid.

However, localities should be allowed to compel, immediately and without compensation, the termination of certain practices which make nonconforming uses peculiarly incompatible with their surroundings, such as the use of minor residential streets for vehicular access when other access ways are available; late-night operation of bars, restaurants, and other businesses likely to generate noise or traffic; and the excessive display of signs. Finally, recognizing the hardships imposed on small businesses, local governments should provide financial and technical assistance to nonconforming businesses and persons forced to relocate, or doing so voluntarily.

Piecemeal rezoning, the reclassification of scattered lots over a substantial period of time, is another common source of intrusion of incompatible uses. This is a particularly serious problem along highways or major streets where the local governments recognize that strip commercial zoning is bad but also recognize that the property along the street is not particularly desirable for any other use. Too often, this resulting ambivalence causes rezoning of a tract here or there, and thus, in effect, permits a locality to avoid awareness of the cumulative impact of its actions. There is some limited possibility for improvement in such situations by the issuance of rezoning policies. Such policies, even if not legally binding, could give the locality a kind of touchstone to use in reviewing later applications. They may, for example, bar commercial zoning along particular types of roads, or they may establish minimum tract sizes for more intensive rezoning. For example, commercial zoning might be granted only if an entire block were to be developed as a unit with reasonable access provisions.

#### *Land purchase and compensative regulation*

The techniques suggested in the preceding sections on undeveloped and built-up areas have been modifications and extensions of the existing system of noncompensative regulation. Modern land-use control is generally thought to

consist largely of guidance techniques that can be achieved without the expenditure of public funds. In fact, many of the most important public decisions involving development guidance are implicit in capital expenditure decisions on such items as highways, sewers, and schools. But it is true that, aside from expenditures for publicly owned facilities and the urban renewal program, government attempts to guide development have centered on police power regulations.

It is becoming apparent, however, that many public land-use objectives will not be achieved by complete reliance on police power techniques. At the present time, many desirable objectives are not even formulated unless it appears possible to achieve them through the exercise of the police power. And all too often attempts to apply the police power approach have resulted in failure to achieve public objectives, and have been accompanied by substantial inequities and abuses of power.

The Commission believes that the time has come for government to assert its legitimate concern with urban development through the use of techniques necessary to accomplish public objectives. In many situations, this requires that the government actually obtain land—through purchase or eminent domain—and that regulation be supplemented by compensation to private property owners. Where actual purchase will result in the government's recapturing increases in land values for the public, government should deem this a legitimate function and an added incentive for direct action.

#### **Recommendation No. 7—Use of land purchase and compensative techniques for development control**

The Commission recommends that States and localities with the assistance of the Federal Government, use public land purchase and compensation techniques for the control of development in situations where such approaches would accomplish better results than traditional police power regulations.

#### **Recommendation 7(a)—Compensative regulation.**

The Commission recommends that the States enact legislation enabling property-owners to compel the purchase of property rights by regulating governments when regulations (or certain types of regulations specified by the statute) would constitute an unconstitutional "taking" of property without just compensation. Land so purchased would then be placed in a public reserve of urban land for present or future disposal and use in accordance with approved plans.

As an adjunct to regulations, provisions to compensate property-owners can be of substantial benefit in assuring that achievement of a desirable result does not offend constitutional or other requirements of fairness. Of course, unsatisfactory relaxation of regulations could sometimes occur if compensation were required in too many situations. The "fiscal" preoccupation of regulating governments in the United States makes the dangers of this unusually great. Where this is a real danger, localities might well experiment with compensative regulation on a limited basis—e.g., allowing it only for aesthetic and open space regulations and for elimination of nonconforming uses without allowing a legally sufficient period of amortization.

Measures to compensate landowners on the basis of actual loss resulting from public action would, in many situations, impose administrative difficulties. Problems arise both in the determination of the extent of value reduction and in the determination of which reductions are compensable and which are not. One approach which minimizes these problems and still provides some protection to property owners is to provide for owner-initiated proceedings for compensation. If regulation becomes a "taking," the owner is enabled to compel the regulating government to buy his land. In effect, the local government is saying that its land-use policies must prevail in determining the use of property; if the policy is unfair to a particular owner, and the locality believes the policy too important to be relaxed by a variance or other discretionary relaxation, then the locality must buy the property if the owner demands that it do so.

While it would be possible under such a system to pay the owner for only that part of his property's value which is lost because of the regulation, leaving him with full title, it would generally be preferable to purchase the property itself. The owner would be required to choose between some uncompensated reduction in value or complete sale of the property—a choice which would undoubtedly limit the number of owner-initiated actions while at the same time providing fair treatment for the owner who is seriously damaged. Moreover, such an approach would eliminate the possibility of windfalls to the owner who receives some compensation, retains the property, and later is able to have the regulation changed. Indeed, partial compensation might encourage an owner to hold the land out for speculative purposes by covering his holding cost for a substantial period of time.

There is a danger that a large number of actions by owners—either individually or in

concert—coupled with a favorable judicial attitude toward awarding compensation would jeopardize the resources supporting the system. In part the danger would be reduced by putting the owner to the choice of selling his title. It would further be reduced if an owner seeking compensation were required to present a plan showing his intention to develop the property immediately.

Provision for owner-initiated actions can cushion the impact of regulatory decisions that radically reduce land values. And some of the other regulatory measures previously recommended (e.g., liberalization of density requirements in planned unit developments) can reduce the number of *ad hoc* regulatory decisions that have massive value impact. There is no prospect, however, of eliminating such decisions altogether. There will continue to be numerous occasions in which the value of one lot is vastly increased by a regulatory decision, while that of nearby lots is not. The resulting inequity to landowners and consequent strain on the administrative system remain serious.

A further possible approach to reduce the value consequences of regulatory decisions is to collect "betterment"—in effect to wring some of the profit out of land transactions. These betterment collections could also, of course, help to pay the compensation to owners whose property lost value. Thus, the burden on the general taxpayer could be lessened or removed. The collection of betterment may be impractical, however, for administrative reasons. In the absence of an acceptable measurement of actual benefit from public actions (e.g., rezoning or the construction of a highway), a tax on increased land values, from whatever cause, seems likely to be the only satisfactory technique for this purpose.

#### **Recommendation 7(b)—State authorization for land banking**

The Commission recommends that State governments enact legislation enabling State and/or local development authorities or agencies of general purpose governments to acquire land in advance of development for the following purposes: (a) assuring the continuing availability of sites needed for development; (b) controlling the timing, location, type, and scale of development; (c) preventing urban sprawl; and (d) reserving to the public gains in land values resulting from the action of government in promoting and servicing development. At a minimum, such legislation should authorize the acquisition of land surrounding highway interchanges. At such times as development of such land is deemed to be appropriate and



in the interests of the region, such land could be sold or leased at no less than its fair market value for private development in accordance with approved plans. Wherever feasible, long-term leases should be the preferred method of disposing of any public land, and lease terms should be set so as to permit reassembly of properties for future replanning and development. Legislation should specify a maximum period that such land may be held by the public before lease or sale.

There are situations in which the carrying out of desirable public policy appears to be impossible without public purchase of affected land. The public policies involved are of two main kinds. First are policies relating to physical development: We have already mentioned the usefulness of land purchase in assisting land assembly for large new developments. The second type of public policy relates to the impact of regulation on land values. Instead of determining which private landowner makes large speculative profits and which one does not, local governments can in some cases avoid the problem by purchasing the land and obtaining the speculative profit for the public.

Without denying the corruption and other strains now caused by the impact of regulation on private land values, the physical development objectives are the more important reason for experimentation with public land purchase. Of particular importance are those situations in which a local or regional plan determines a longrun use which market forces are likely, if left unchecked, to use too soon or for another purpose. For example, a realistic view of political pressures and legal requirements compels the conclusion that uncompensated police power regulations cannot often be expected to deal effectively with situations such as these:

A metropolitan plan intending to achieve some measure of "recentralization" of development calls for the creation of major new subcenters within the metropolitan complex. The location of such centers cannot be left essentially to private decision, and advance designation of sites must often be expected to lead to familiar problems of scattered development, or, of spreading low and medium-intensity development that precludes later optimum development.

The areas surrounding many of the new expressway interchanges being built on the fringes of urban areas are subject to scattered formless development. Great opportunities for efficient, enjoyable new develop-

ment are being lost daily because of insufficient guidance.

A substantial area is designated for industry by a metropolitan plan. There are sites—e.g., those with the potential for deep-water port facilities—that are particularly well suited for uses that cannot well go elsewhere. Yet the short-run interests of landowners sometimes lead them to permit other forms of development because of an unwillingness or financial inability to wait the years that may be necessary before optimum development becomes feasible. There is, of course, precedent for public purchase of needed industrial land.

The most comprehensive form of public land purchase calls for the creation of a land bank. Public agencies would resell (or lease) land from this land bank for use in accordance with local plans for the type, location, and timing of development. Such an approach was used successfully in this country in early years and is being used in some of the democratic countries of Western Europe. Although it seems unlikely that many localities would be willing or able to use such a system, State authorization of the system appears desirable so as to permit local experimentation that may help to determine its potential success under modern American conditions.

If a State concludes that land banking is either inappropriate or unnecessary, authority for public land purchase should, nevertheless, be granted for use in those special circumstances in which development pressures are particularly likely to produce undesirable results that cannot normally be controlled through regulatory techniques alone. The highway interchange situation is an especially important example.

In disposing of such properties, governments should note that rapid changes in technology are likely to necessitate the periodic reassembly of much urban land into parcels large enough for comprehensive renewal. The Commission has concluded that in terms of both cost and ease of reassembly, the public interest is best served when governments dispose of their property through long-term leases rather than through sale. (See the discussion and recommendations on urban renewal, pt. II, ch. 6 and sec. 9.)

#### **Recommendation 7(c)—Provision of Federal assistance for land acquisition**

The Commission recommends that the Congress enact legislation establishing a Federal revolving fund to facilitate the purchase of land by local governments in owner-initiated compensation proceedings and as part of direct-purchase programs, with the

**Federal contribution to be returned to the fund upon disposition of the property. Furthermore, the Congress should enact legislation authorizing the Department of Transportation to assist States in acquiring land surrounding federally assisted highway interchanges.**

While public land purchase appears to hold great long-term promise, local governments may not in the short run have the money required for purchase. A Federal revolving fund will permit many localities to overcome this obstacle. The existence of such a fund would appear to be especially important where owner-initiated proceedings are allowed, since the threat of actions by a group of owners acting in concert might otherwise pose a serious threat to effective regulations.

Because of the special importance of highway interchanges in the land development picture and the massive Federal involvement in highway construction, Federal assistance for acquisition of land surrounding interchanges, through the Department of Transportation, holds special promise for prompt and effective action.

#### *Other considerations*

In the foregoing recommendations, the Commission has set out the major new approaches which it believes are needed for orderly urban growth in the future. There are, of course, many less dramatic suggestions which can be made and which can contribute significantly to improving the present system. We would note in particular the importance of strong conflict-of-interest legislation applicable to State and local officials making land-use decisions, which often

involve enormous land value effects; State legislation authorizing localities to exercise official map powers or otherwise to protect land needed for future public use; State legislation authorizing localities to condition the granting of a rezoning on the applicant's carrying out plans and provisions made by him as the basis for the rezoning action; the need for more and better training for planners in the day-to-day aspects of regulation; conferences and seminars sponsored by the government and private groups, such as the National Association of Home Builders, to emphasize the importance of design and new developments in site planning.

We have noted that highways pose some very special land-use problems, with pressures for commercial uses along major streets and highways creating traffic problems, introducing blighting effects on neighboring properties, destroying natural beauty, and generally detracting from the attractiveness of both urban and rural America. Federal and State involvement in building the national network of highways places special responsibility on these governments to assure that basic esthetic and social values are not lost in the zeal to solve transportation problems. Among the actions which should be taken are the prohibition of new billboards and elimination of existing ones, with the Government assuming the task of providing needed informational signs of attractive and unobtrusive design; the prohibition of local land-use decisions which allow new commercial strips along State-aided roads; and the establishment of a State policy that property bordering highways and major streets normally be subdivided so that access to homes is not directly from highways or major streets.



## CHAPTER 3

# Building Codes

The Commission is charged under section 301 of the Housing and Urban Development Act of 1965 with examining:

State and local urban and suburban housing and building laws, standards, codes and regulations, and their impact on housing and building costs, how they can be simplified, improved and enforced, at the local level, and what methods might be adopted to promote more uniform building codes and the acceptance of technical innovations including new building practices and materials.

The issue of building codes is also important in the context of the President's mandate to this Commission to determine how the Nation can build an abundance of housing for American citizens with low incomes.

We must create a climate in which American industry and American craftsmen can use their inventive genius to achieve the goal of a decent home in a suitable living environment for all Americans.

The charge to the Commission wisely combines the study of building codes with the questions of new products, innovative processes, and improved building practices. These issues are closely related.

### WHAT SHOULD BE OUR GOALS?

Our purpose is to achieve a more rational building system. We should seek to establish the machinery whereby new products and innovations can be properly tested and judged on their merits in the competitive marketplace, unhindered either by needless physical restrictions or by the whims of local officials.

Standards should be set and judgments made on a more objective basis and by more broadly based bodies which include not only building officials but representatives of the building industry, professional groups, and the general public.

Decisions should be made not only on a more objective basis but at greater speed.

A far larger role should be played by metropolitan areas or regions, and by the States—especially in attaining uniformity of standards and fair appeal procedures.

Unless all else fails, we should not seek a national code imposed by the Federal Gov-

ernment. Instead, we need national *standards* developed by both private and public bodies which can be universally accepted and applied.

The Federal Government does have a major task to perform, however, in rationalizing the numerous conflicts in standards, provisions, and regulations among its own 35 or more agencies involved in building. It should also provide funds for research and testing by public interest groups composed of representatives of private industry, professional bodies, and government agencies.

In short, we need a system which frees the building industry from needless private and governmental restrictions at all levels; which unleashes our innovative and entrepreneurial genius; and which could help to provide an abundance of housing for the American people.

### CODES AND CODE GROUPS

A building code is a series of standards and specifications designed to establish minimum safeguards in the erection and construction of buildings, to protect the human beings who live and work in them from fire and other hazards, and to establish regulations to further protect the health and safety of the public. Building codes are formulated and enforced through the police powers of State governments, ordinarily delegated to and exercised by local governments, usually municipalities. In one form or another, codes go back to the earliest days of civilized society, and serve an essential purpose.

In modern America, a plethora of codes has been promulgated by various organizations. In the building construction field, there are four major groups known as the model code groups. The Building Officials' Conference of America (BOCA) is most prominent in the East and North Central areas of the country, but also has membership elsewhere. Its code is called the Basic Building Code.

The International Conference of Building Officials (ICBO) is the most influential of the code groups in the Western States, but like BOCA is not limited exclusively to that region. Its code is known as the Uniform Building Code.

In the South, the Southern Standard Building Code is the major code but, like the others, it does not have exclusive jurisdiction. The BOCA, ICBO, and National codes overlap it in many areas.

The National Building Code is the code published by the American Insurance Association. It is estimated to have been adopted in about 1,600 communities.

In addition to codes confined strictly to building, there are mechanical codes, mainly plumbing and electrical but also including codes for elevators and boilers, and the special codes, usually promulgated by States, for hospitals, schools, theaters, factories, nursing homes, and other special categories.

Of the mechanical codes, the two best known are the National Electrical Code and the National Plumbing Code. Recently the model code groups have adopted their own plumbing codes as well.

#### PROBLEMS

Complaints against building codes, building code organizations, and local officials are widespread. It is alleged that unneeded provisions and restrictions in locally adopted codes add significantly to the cost of housing, that they delay construction, that they prevent the use of the most up-to-date and modern materials, that they inhibit creative design, that their provisions are antiquated and outdated, and that the procedures for modernizing and amending them are slow, laborious, lacking in objective standards, and dominated by a very small group in the industry; namely, building code officials and officials of the trade associations in the building materials field. It is charged that other directly interested parties, including qualified building, producing, and professional groups, are excluded from the decisionmaking bodies, and that the general public and the public interest are represented inadequately, if at all.

Additional complaints against building codes and their administration include—

- The lack of uniformity of both provisions and administration at the local level and in metropolitan areas characterized by large numbers of independent cities, towns, and counties;

- The inadequacies of training and the absence of proper qualifications for local building officials;

- The arbitrary actions of local building officials;

- The lack of proper appeal procedures;

- The inhibitions against marketing of mobile homes and prefabricated housing;

- The prevention of large-scale building and selling by conventional builders, which

could achieve economies of mass production and the standardization of production;

The abandonment by the States to the localities of responsibilities and functions that should properly be exercised at the State level; and

The diverse standards and regulations of various Federal agencies responsible for building construction, with resulting confusion and added costs.

#### ESTABLISHING THE FACTS

Past controversies on these subjects have been heated but lacking in basic information. Building code officials representing national construction code groups complain that they are charged with local abuses over which they have no control. Complaints by innovators whose materials or methods are not accepted in the codes are often said to be unfounded because the innovations have not been properly tested. Model code groups also point out that while provisions of the national model codes may include a specific product or practice, producers of competing materials or methods may influence its exclusion from local codes. In other instances, it is said that complaints against a State or city plumbing or electrical code provision are unfairly charged against the national construction model code.

In order to establish the facts of these charges and countercharges, the Commission embarked on a planned and meticulous inquiry through a program of hearings, meetings, interviews, inspections, and detailed research studies.

The Commission took testimony from leading builders, building code officials, architects, building innovators, engineers, and housing officials in every part of the country. For example, it heard from, among others, the chief building inspector in Baltimore, the managing director of the International Conference of Building Officials (ICBO) in Los Angeles, the chairman of the National Joint Council on Building Codes in St. Louis, the administrator of building codes in Oakland, the director of research of a building innovating corporation in Atlanta, a systems expert who explained his prototype and his problems with codes in Detroit, and local builders in every part of the country.

The Commission not only heard testimony but inspected a large number of new building practices, innovations, and techniques actually in operation. It looked at the use of preformed concrete panels in a 221(d)(3) project in Boston. In New York City, Baltimore, and Phila-



delphia it examined rehabilitation projects and their relationship to costs and building codes. The Commission visited a mobile home factory in Los Angeles. In Dallas it viewed a unique technique of homebuilding by stacking sacks containing a mixture of gravel and cement. It looked at the use of precast concrete panels in Miami. Individual members visited a prefabricated home factory in Indiana and many other exhibits and demonstrations in Washington, D.C., and elsewhere.

The staff of the Commission taped interviews with builders from every part of the United States concerning their problems with local and national codes, building regulations, and building officials. Dozens of examples were collected. Detailed data was furnished to the Commission by the mobile home industry, giving examples of restrictions and difficulties it faced in every part of the country.

The Commission undertook research contracts with four major universities to conduct interviews in the New York City, Houston, Detroit, and San Francisco areas with builders, contractors, architects, engineers, and others concerned with the construction of housing. The purpose was to determine actual building code and building regulation practices and their impact on housing costs and production. Through the cooperation of some of the national organizations representing builders, architects, engineers and general contractors, additional surveys were undertaken. Other research studies were undertaken, including a detailed study of building code administration by the Department of Urban Studies of the National League of Cities in the same four metropolitan areas as the university studies in code provisions.

Of prime importance, however, was a major survey on building codes undertaken for the Commission by the Census Bureau.<sup>1</sup> The survey results show what codes are being used and where; to what degree local government units had adopted one of the model codes and when it was adopted; *whether and to what degree it had been amended*; whether procedures existed for updating the code; and what specific provisions were in effect in the case of a number of actual materials and practices.

The survey was designed to obtain the facts in an objective, quantitative manner. Past assertions that the codes restricted the use of Romex or plastic pipe, for example, have been denied on the grounds that the national model codes included these items. Because of that,

some claimed there were no problems. What are the facts? What is done? What codes are in effect? What are the real practices?

#### WHAT WAS SURVEYED

The survey of building codes dealt with 17,993 units of local government. Of these, 7,609 were within the standard metropolitan statistical areas of the United States, including 404 counties, 2,228 townships, and 4,977 municipalities. All of the 314 municipalities above 50,000 in population were surveyed. All 404 metropolitan counties were surveyed. Samples of the remaining metropolitan units were taken.

Of the total sample, 10,384 units were outside the standard metropolitan statistical areas. Unlike the units within SMSA's, those with 1,000 persons or less were omitted. The survey dealt with a sample representing 2,645 counties, 2,732 townships, and 5,007 municipalities outside SMSA's.

#### WHO HAS BUILDING CODES?

Of the almost 18,000 units of government represented in the sample, 46.4 percent, or just under half, had a building code. Almost 54 percent had no such code.

Of the 7,609 units of government within SMSA's, 4,527—59.5 percent—had a building code. More than 40 percent did not.

Of the 10,384 units outside SMSA's, only 3,817—36.8 percent—had a building code.

The breakdown of counties, municipalities, and townships, both within and outside SMSA's, which have a building code is given in table 1.

TABLE 1.—NUMBER AND PERCENT OF UNITS OF GENERAL GOVERNMENT ACCORDING TO SURVEY SAMPLE WHICH HAVE A BUILDING CODE

	Within SMSA's		Outside SMSA's	
	Number	Percent	Number	Percent
Counties.....	159	39.4	256	9.7
Municipalities.....	3,434	69.0	1,050	60.9
Townships.....	934	41.9	1,511	18.7

<sup>1</sup>Units of under 1,000 omitted.

#### PROLIFERATION OF CODES

The survey obtained extensive details on the practices of municipalities and townships, both within and outside SMSA's, which had a population of 5,000 or more. These are the areas where building codes and the provisions of building codes are most important.

There were 4,067 such units of government. Of these, 80.5 percent (3,273) had a building code. But almost 20 percent did not.

<sup>1</sup> *Local Land and Building Regulation*, by Allen D. Manvel, National Commission on Urban Problems, Research Report No. 6.

In addition to a building code for construction, many jurisdictions reported both an electrical code and a plumbing code to cover mechanical work. Of these, the National Electrical Code dominated the electrical code field. The survey showed that of the 3,273 governments which had a building construction code, 78.1 percent (2,556 units) had also adopted the National Electrical Code.

The National Plumbing Code has been of primary importance in that field. Recently, however, other plumbing codes, such as the BOCA and the Western Plumbing Codes, have become important because of the failure since 1955 to revise the National Plumbing Code. The survey found that the National Plumbing Code was used by only 43.9 percent (1,438) of the 3,273 units which had adopted a building construction code. This means that many local governments (2,629 or 65 percent of all units) either do not have a plumbing code or use the BOCA, Western or a plumbing code other than the National Plumbing Code.

When builders and architects complain about the lack of uniformity, the absence of clear standards, or the proliferation of provisions, their complaints are confirmed by the facts above merely concerning the coverage of codes.

One of the frequent complaints heard by the Commission was that local codes actually bore little relationship to the model construction codes on which they were sometimes said to be based. This fact was said to add to the lack of uniformity and the absence of clear standards. The facts gathered by the Census survey for the Commission bore out these complaints.

Of the surveyed government units which were over 5,000 in population, only 1,717 or 52.5 percent of model code governments (42 percent of all units of government) had a building construction code which "substantially incorporated" a national or regional model code. By that is meant that the local building code incorporated the entire model code except for possible departures involving only administrative or enforcement provisions.

*Other local codes were merely based on such a code (482 of these governments), or based on a state model code (589), or were not related to any model (383), or the relationship was not reported (105).*

#### FAILURE TO REVISE

Each year the national model code groups meet and consider changes and revisions in their codes. While there are complaints about the procedure, the fact is that the model codes are revised from time to time leading to ultimate acceptance of many—if not the most contro-

versial—new products and methods. Most of the national model codes or their plumbing code or plumbing chapter counterparts actually allow plastic pipe for drain, waste, or vent, wall board, and Romex cable, to name only a few of the more prominent products which building codes are said to exclude.

But a major complaint is that the codes at the local level, even when based on a national model code, do not provide for the use of such products and new procedures. The survey undertaken for this Commission attempted to determine the extent to which local codes are kept up to date.

One of the basic problems is that only two-thirds of the building code governments (i.e., only about half of all these governments, including those without codes) either substantially incorporate or base their codes on the model codes to begin with.

But of these, only 1,278, or 58 percent, of the model code governments had procedures for the annual consideration of changes or updating.

*Of the model code governments, only 28 percent had adopted as much as 90 percent of the recommended changes of the model code groups during the previous 3 years.*

Of all the governments which have a building construction code of any kind, 45 percent either had not adopted or comprehensively revised their codes in the previous 4 years.

Thus, while strong arguments are made concerning the quality of the national model construction codes, the facts are that their provisions do not apply without substantial amendment on a widespread basis at the local level.

Based on this survey, the following conclusions can be drawn: *Only about 15 percent of all the municipalities and townships above 5,000 in population had in effect a national model building code which was reasonably up-to-date; about 85 percent of the units either had no code, did not use a model code, or had failed to keep the code up to date.*

#### RESTRICTING NEW PRODUCTS AND PRACTICES

The Commission did not limit its survey merely to general questions. It asked about specific products and specific practices. It did this because some materials are reasonable alternatives, serve the same purpose, take less time to install, or provide a means of reducing costs.

The Commission chose 14 specific products or practices where complaints about costs, prevention of preassembly, or excessive requirements are most commonly heard. Most of the



practices or products complained against are not prevented by the national model codes. In general, the model codes allow the product or practice. But quite different results were found locally, not only for building code governments in general but also for the model code governments.

#### *Plastic Pipe*

Perhaps the most controversial building code issue in recent times has been the use of plastic pipe in drain, vent, and waste systems in one- to two-story housing units. This practice is now allowed, at least technically, by most of the major model building codes or their plumbing code counterparts.

*Of all governments which had a building code, 63 percent prohibited the use of plastic pipe in drainage systems.* In model code governments, 62 percent prohibited this product. In practice, additional restrictions are placed on the use of plastic pipe through administrative action.

With regard to plastic pipe, it is an understatement to say that there is a vast gulf between the provisions of the national model code or their plumbing code counterparts, on the one hand, and local practice on the other.

#### *Preassembled plumbing and electrical units*

Among the more important methods of reducing building costs is the prefabrication or offsite assembly of plumbing or electrical units. This makes the use of mass production and assembly line techniques possible; work can be done more efficiently through specialization and the division of labor; and much of the work is freed from the added costs due to time lost because of inclement weather because it is done indoors.

The survey showed, however, that of the 3,273 governments which had a building code, 42 percent prohibited offsite preassembled combination drain, waste, and vent plumbing systems for bathroom installation (plumbing trees).

Preassembled electrical harnesses were entirely prohibited by 46 percent of the governments surveyed.

In other words, in almost half the areas which had a building code, preassembled plumbing and electrical units were completely prohibited. With respect to these items, the builder and the consumer have no freedom of choice.

#### *Two-by-fours in non-load-bearing partitions*

Any objective standard or test indicates that the requirement for the use of 2 by 4's every 16 inches in non-load-bearing partitions is an excessive one. They are not required to bear the stress and weight of the building or ceiling. Experts agree that 2 by 3's can be used just

as effectively in interior partitions and in non-load-bearing walls, and that 2 by 4's spaced every 24 inches would be just as safe. There seems to be no expert or scientific data to refute these facts. The requirement for 2 by 4's every 16 inches in non-load-bearing walls clearly adds to both material costs and labor costs.

*Nevertheless, nearly half (47 percent) of the building code governments surveyed entirely prohibited 2 by 4-inch studs every 24 inches on interior partitions.*

Two-by-three-inch studs of whatever spacing were entirely prohibited on interior or non-load-bearing partitions by 36 percent of the building code governments.

#### *Local acceptance of model code provisions*

The problem of local acceptance of the provisions of the national model codes can be further illustrated by an example. One of the four major national building code groups has an eight-member committee which passes on such issues as the use of plastic pipe for inclusion under the provisions of the model code. On the basis of evidence presented to the committee, its members voted unanimously to accept the use of plastic pipe in the drainage system of nonmultifamily residential construction. They recommended that such use be incorporated locally as a part of the plumbing chapter provisions of their building code.

Even today, however, the use of plastic pipe for this purpose is allowed under the local code in the jurisdiction of only one of the eight members who voted to include or accept it in the national code.

This example highlights how local practice or local amendment to a code takes precedence over the provisions of a national model code even in those jurisdictions where such a model code is adopted as the basis of the local code.

Table 2 gives the results of the survey of the 14 specific products or practices.

#### LACK OF UNIFORMITY

What conditions face the local builder, the industrial prefabricator, the mobile home company, or the architect who wishes to build, sell, or design housing or housing products in the metropolitan areas of the United States? Can he market his preassembled plumbing or electrical unit? Can his new product, approved by a model code group, be used locally? Can he obtain approval from the local building code official to sell his factory-built housing unit? Can the preassembled panels be installed or must they be ripped apart in order that factory-installed electrical wiring can be inspected? What are the facts with respect to both the requirements and the practices under local codes?

TABLE 2.—PROPORTIONS OF LOCAL BUILDING CODES THAT ENTIRELY PROHIBIT VARIOUS FEATURES IN RESIDENTIAL CONSTRUCTION: 1968

[Based on data for municipalities and New England-type townships of 5,000-plus]

Construction feature prohibited	Percent of govern- ments with build- codes <sup>1</sup>		Percent of building code governments specifically re- porting <sup>2</sup>	
	All <sup>3</sup>	"Model code" govern- ments <sup>4</sup>	All <sup>3</sup>	"Model code" govern- ments <sup>4</sup>
Plastic pipe in drainage system.....	62.6	61.7	68.9	67.6
2 in. by 4 in. studs 24 in. on center in non-load-bearing interior partitions....	47.3	43.5	50.6	46.1
Preassembled electrical wiring harness at electrical service entrance.....	45.7	44.8	51.2	49.1
Preassembled combination drain, waste, and vent plumbing system for bath- room installation.....	42.2	39.6	46.8	43.2
2 in. by 3 in. studs in non-load-bearing interior partitions.....	35.8	34.7	38.3	36.9
Party walls without continuous air space..	26.8	27.4	30.6	30.7
Single top and bottom plates in non-load- bearing interior partitions.....	24.5	23.5	26.2	24.8
Wood frame exterior for multifamily structures 3 stories or less <sup>5</sup> .....	24.1	22.0	26.7	23.5
½-in. sheathing in lieu of corner brac- ing in wood frame construction <sup>6</sup> .....	20.4	21.1	22.0	22.3
Prefabricated metal chimneys.....	19.1	16.9	20.5	18.0
Nonmetallic sheathed electric cable.....	13.0	13.0	14.5	14.4
Wood roof trusses 24 in. on center.....	10.0	10.3	10.7	11.1
Copper pipe in drainage systems.....	8.6	9.4	9.3	10.0
Bathroom ducts in lieu of operable windows.....	6.0	5.3	6.4	5.6

<sup>1</sup> Units so reporting as a percent of all building code governments in each group (including those that did not specifically report "yes" or "no" for particular construction features).

<sup>2</sup> Units so reporting as a percent of those reporting either "yes" or "no" (i.e., excluding those not giving this information for particular construction features).

<sup>3</sup> These data pertain to the 3,273 municipalities and New England-type townships of 5,000-plus that have building codes.

<sup>4</sup> These data pertain to the 2,199 units (of the 3,273 total) that have building codes reportedly based primarily upon 1 of the 4 national or regional model codes.

<sup>5</sup> Calculation excludes governments that entirely prohibit frame residential construction (77 altogether, including 59 "model code" governments).

<sup>6</sup> Plywood or fiberboard.

Source: "Local Land and Building Regulation," by Allen D. Manvel, Commission Research Report No. 6.

### *Building codes in the big cities*

First of all, the central city of a metropolitan area would in most cases have a building code whose provisions were essentially unique to the city involved. This would tend to be true even when that code was originally based on one of the model codes. This is not to say that the code would be either less or more restrictive than codes of other cities. It merely means that in its totality it would be less like a model code. With a more active building department and a wide variety of conditions which create problems and issues to be acted on, the larger city has both the staff and the opportunity to judge, change and amend its code. In some smaller communities, on the other hand, a code may stay essentially unchanged for years, except for a few items where strong economic interest groups have a stake.

The Commission collected detailed data for the 52 largest cities through a special tabulation in its census survey. Each of the 52 had a population of over 250,000 in 1960. Only four of the 52 did not provide detailed reports. For

many key items, the gaps in information were filled from other sources. (See table 8 for list of cities.)

These cities had 40 million inhabitants in 1960, or more than 20 percent of the total population. They contained more than one-third of the population of all the governments in the country which had planning, zoning, or building regulation activities. They accounted for about one-third of all the funds spent for such activities. The findings are, therefore, of considerable importance.

From the survey it was possible to determine the relationship of the local building code to the various model codes. The results were as follows:

Substantially incorporating 1 of the 4 national or regional model codes.....	14
Based upon such a code but with some substantive departures.....	20
Based upon a State-recommended model code....	1
None of the foregoing.....	13

A closer look, however, indicates that the codes may be more unique than this would indicate. For example, of the 34 major cities whose building codes are said to be related explicitly to a national or regional model code, only 25 report "an established procedure for local consideration, at least annually, of changes proposed by the pertinent national or regional code organization." However, only nine of these indicate that official action during the past 3 years has led to local acceptance of 90 percent or more of the changes proposed by the model code organization, and for seven cities the estimated proportion of local acceptance was less than 50 percent.

Thus, only nine of 48 governments, or 19 percent, had a building code which either substantially incorporated the model code or was based upon such a code but with more substantive departures, and which had incorporated as many as 90 percent of the recent model code changes. Furthermore, the 20 cities where the code was merely based on a model code but with substantive departures from the model code further reduce the degree to which uniformity with model code provisions would exist.

At least 43 of these major cities have reportedly adopted the National Electric Code, but the corresponding minimum number that have enacted the National Plumbing Code is only 16.

*Expenditure.*—Of the \$97.5 million that these major cities expended in fiscal 1967 for planning, zoning, and building regulation activities, more than three-fourths (\$77.5 million) was directly for the administration of codes, including inspection work. This figure includes



expenditures for both building code and housing code activities.

*Residential construction regulations.*—The building codes of the largest cities typically reflect somewhat less rejection of the specific residential construction practices listed in the survey inquiry than was found for building-code governments generally. Substantially complete reports on this subject are available for 48 of the 52 cities. These show a numerically smaller fraction of them prohibiting seven construction features, as follows (with the percentages for all building-code governments shown parenthetically, for comparison):

- 29 percent (versus 47.3 percent) for 2- by 4-inch studs 24 inches on center in non-load-bearing interior partitions;
- 27 percent (versus 42.2 percent) for preassembled combination drain, waste and vent plumbing system for bathroom installation;
- 21 percent (versus 35.8 percent) for 2- by 3-inch studs in non-load-bearing interior partitions;
- 19 percent (versus 26.8 percent) for party walls without continuous air space;
- 13 percent (versus 24.5 percent) for single top and bottom plates in non-load-bearing interior partitions;
- 13 percent (versus 20.4 percent) for use of one-half inch sheathing in lieu of corner bracing in wood frame construction; and
- 6 percent (versus 19.1 percent) for prefabricated metal chimneys.

On the other hand, these 48 of the 52 largest cities show an even higher proportion of rejection for several items, including these:

- 73 percent (versus 62.6 percent) for plastic pipe in drainage systems;
- 44 percent (versus 24.1 percent) for wood frame exterior walls in multifamily structures of three stories or less;
- 21 percent (versus 13.0 percent) for non-metallic sheathed electric cable; and
- 13 percent (versus 8.6 percent) for copper pipe in drainage systems.

For the other three construction-practice items, the large city percentages of rejection were generally similar to overall averages. These included "preassembled electrical wiring harness," outlawed by building codes in 40 percent of the reporting large cities as against 45.7 percent of building-code governments as a whole.

#### *Codes in the suburbs*

In the various towns and suburbs outside the central city, the builder faces a variety of conditions. Some towns have a model code on their

books. In a few towns or cities it might even have been adopted without amendment and be reasonably up to date. In most towns or cities with a model code, it would contain amendments or restrictions and would be out of date. In the major metropolitan areas of the country, different towns would have different model codes, both with and without amendments.

Furthermore, some towns would have no code at all, or their own code, or a code based on a State code. In some places a combination of a model building code and the National Plumbing Code would be in effect. In other places, both the model building code and model plumbing code would apply.

In some large metropolitan areas where no one national model code is dominant but where the model code areas overlap, the number of combinations and permutations could number in the thousands.

*Chaotic conditions.*—This chaotic condition prevents the effective application of modern mass production methods and the adoption of new products and techniques. It is localism, provincialism and so-called home rule gone wild.

The authority under which a local government formulates and administers building codes is the police power of the State—that is, the power of a sovereign government in a Federal union to legislate for the public health, safety, morals, and general welfare. Under the Constitution of the United States, the police power resides in the States; and though it is permissible for the States to delegate various police power functions to localities, the localities exercise those functions as agents of the State and not by virtue of any inherent powers of their own.

The localities therefore have no constitutional or inherent right to inflict these chaotic conditions on the public, as some apologists for the building code mess assert. What police powers the State delegates to the locality do exercise, the States can properly withdraw. The situation has no constitutional sanction nor was it ordained in heaven.

*Local interpretation.*—Even where a model code has been adopted over a relatively large number of jurisdictions or relatively wide area with no or few amendments, local inspectors often interpret the code in a way which differs from the language and often even more from the interpretations of inspectors in the neighboring city or suburb.

One builder at the Commission's St. Louis hearing gave a list of varying local interpretations, building code amendments, and regulation in the 95 jurisdictions in the St. Louis area which he said could add as much as \$1,000 to the cost of building a home there.

At the St. Louis hearing, the following questions were asked of a builder witness:

Q. If you built a standard house, say a \$22,000 house, in each of the 95 jurisdictions, with a standard set of plans, in how many communities could you build that house without having to make some basic change in it or some costly change in it due to the building codes? Could you build the same house in each of the 95 communities in this county, or would you have to go to a building code inspector in each of them and get approval and have changes made? What is the kind of situation you would face in trying to build the same house in each of these 95 communities?

A. One, you definitely would have to submit it on an individual basis to each one of these municipalities and, two, I would say that in the majority of them you would have to make some changes, very few real changes, but some change that would increase your costs.

Specialization and mass production, and the savings which accompany them, depend on the extent of the market. Building codes as now administered and applied hinder specialization, the use of modern technology and mass production methods in the housing industry. They limit the application of new materials and methods even in a metropolitan area, let alone over a State or geographic region or throughout the United States.

*Fire safety regulations.*—The census survey for the Commission sought information about a number of "structural requirements that pertain to fire safety, as governed by the building code or any other regulations or ordinances" of the governments involved. A considerable part of the survey sample did not provide usable answers to these questions; however, much of this nonreporting involved the 20 percent of the entire group of represented governments which lack local building codes. Since these fire-safety questions were especially pertinent for sizable cities, the results summarized in table 3 include data separately for the cities of more than 50,000 population.

Table 3 gives in percentage terms the findings from three of the fire-safety questions.

Another item asked about "the minimum fire-resistance rating required for fire division walls in mercantile buildings." Usable replies were

TABLE 3.—FIRE SAFETY REQUIREMENTS

	[In percent]		
	Yes	No	Unreported
Is use of fire-retardant wood permitted in fire-resistive construction (Types 1 and 2)?			
All governments.....	51.1	24.4	24.5
Cities of 50,000-plus.....	71.7	22.9	5.4
Are flame-spread characteristics in interior finish materials in multifamily (3-plus) residential structures regulated?			
All governments.....	48.2	26.7	25.2
Cities of 50,000-plus.....	68.2	28.0	3.8
Are parapets required on party walls in row housing?			
All governments.....	42.2	30.7	27.0
Cities of 50,000-plus.....	47.8	47.5	4.8

received for 58 percent of the governments represented in the survey (including 87 percent of the cities of 50,000-plus), and are given in percentage terms in table 4.

TABLE 4.—MERCANTILE FIRE RESISTANCE RATING

	[In percent]	
	All governments	Cities of 50,000-plus
1 hour or less.....	34.6	44.0
2 hours.....	24.8	25.3
3 hours.....	12.1	13.6
4 hours.....	24.7	24.6

The questionnaire also asked, "What is the maximum distance permitted, under your regulations, for travel to an exit of dead end corridors within multifamily residential buildings?" Usable replies were received for 47 percent of the governments represented (including 82 percent of the cities of 50,000-plus), and these reports are shown in table 5.

TABLE 5.—FIRE EXIT REQUIREMENTS

	[In percent]	
	All governments	Cities of 50,000-plus
25 feet or less.....	34.6	44.0
26 to 50 feet.....	24.8	25.3
51 to 75 feet.....	13.0	12.5
76 to 100 feet.....	18.9	12.5
101 feet or more.....	8.6	5.8

Finally, the questionnaire asked, "What is the minimum fire-resistance rating required for corridor walls in residential buildings of four stories or more?" Usable replies were received for 46 percent of the governments represented (including 91 percent of the cities of 50,000-plus). Their reports are shown in table 6.

TABLE 6.—RESIDENTIAL FIRE RESISTANCE RATINGS

	[In percent]	
	All governments	Cities of 50,000-plus
1 hour or less.....	53.7	58.9
2 hours.....	38.6	36.5
3 hours.....	3.9	2.1
4 hours.....	3.8	2.5

It is clear from the results of the survey that a wide variety of standards and conditions face a builder with respect to fire-safety provisions. There is an obvious need for more objective evidence as to which provisions are necessary for safety and for far greater uniformity between and among jurisdictions. The degree to which requirements may be excessive and add to costs can only be determined by establishing what standards are really necessary.



It is often claimed that the larger cities have sufficient technical staffs to develop and interpret standards concerning fire safety. This is given as a justification of the many local departures from model codes and the large number of essentially independent or unique codes in the larger cities. Yet it is clear from the survey that as much variation exists in the standards in the larger cities as in the small ones. This would hardly be the case if the provisions were based on objective standards.

These conditions present such a wide variation of standards and requirements to the builder and the building industry that one must (1) question whether many of the requirements are not excessive and add to costs, and (2) assert that the mere lack of objective standards and uniformity by definition does lead to increases in cost by preventing standardization and the savings which result from it.

#### A CASE HISTORY: BUILDING CODE PROBLEMS OF HOME MANUFACTURERS

To determine the impact of local building codes on home construction, the Commission undertook a detailed study of code problems confronting home manufacturers producing "prefabricated houses." Their operations were selected for study because they are concerned with the distribution of a product that is more or less uniform and must be approved by building officials within relatively large regions. Their market area may contain hundreds of governmental jurisdictions, each with its own codes and administrative agencies. In contrast, the average conventional builder usually operates in a limited local market, constructing homes of varying style and construction and conforming to only a handful of different building codes and local administrative agencies.

The Commission secured the cooperation of the Home Manufacturers Association, which agreed to assemble the necessary information on local problems. An advisory committee to the Commission was established and a survey was made of all firms engaged in prefabrication. A large body of data was assembled, identifying the specific code problems and the added costs resulting from local building regulations.

The study produced findings in the following three categories:

(1) An extensive list was assembled indicating specific local code requirements which exceeded those in national model codes and the FHA minimum property standards. The extra costs per house attributed to *each* of these items ranged from \$25 to \$640. The list, assembled from 126 reports submitted by 20 home manu-

facturers, cites code requirements of 32 counties and 109 cities and towns in 20 States.

(2) Based on the total list (reported only by those home manufacturers participating in the study), the home manufacturers advisory committee prepared a list of excessive code requirements most frequently encountered by home manufacturers, as shown in Table 7. If a manufacturer were forced to incorporate every item in his product, there would be "extra costs" of \$1,838 per house if he marketed in 20 States. The home used for estimating costs was assumed to be a 1,000-square-foot family unit that would cost \$12,000 without improved lot, under model code or FHA requirements.

TABLE 7.—MORE FREQUENT CODE REQUIREMENTS IN EXCESS OF MODEL CODES OF FHA MINIMUM PROPERTY STANDARDS

	<i>Extra cost added</i>
Foundation footings to clay, when piers and grade beam would do as well-----	\$150.00
Special bolts-----	15.00
Unnecessary bridging and ties-----	76.00
Extra number and sizing of joists above FHA requirements -----	63.00
Conventional floor rather than stress skin floor -----	40.00
Extra thickness of sub-floor-----	30.00
Extra sheathing above FHA requirements--	125.00
Extra studs above FHA requirements-----	30.00
Extra window and door headers above FHA requirements -----	20.00
Extra thickness of gypsum board-----	22.00
Plaster instead of gypsum board-----	200.00
Extra fire wall requirements in frame construction above model codes-----	50.00
Extra roof sheathing (\$25-\$50)-----	37.50
Extra roof trusses (\$25-\$50)-----	37.50
Requirement of a masonry chimney when a Class B flue would do a better job-----	150.00
Special fire protection in furnace room not needed when approved heating for zero clearance is used-----	100.00
Extra plumbing above first floor over National Plumbing Code (\$135-\$250)-----	192.00
Extra plumbing below first floor over National Plumbing Code-----	100.00
Extra electric over National when no conduit -----	50.00
Extra electric over National when rigid conduit required-----	300.00
Extra heating duct requirements (return metal plenum over gypsum) and insulation beyond 6 feet from hot air plenum-----	50.00
Total -----	1,838.00

(3) The most significant information was revealed in an analysis of the problems of one manufacturer who must adjust his product to all codes in the region within which he operates.

The Commission staff analyzed the reports submitted by that manufacturer relating to code requirements of 19 counties and six cities included in the six States of Georgia, Maryland,

Kentucky, North Carolina, Virginia and Ohio, within which the manufacturer conducted his business. Within a relatively small market area of 25 code jurisdictions, cited by the manufacturer, there are reported 75 *different* code requirements considered to be excessive. The reported excessive code items for each one of the 25 individual code jurisdictions ranged in number from one to 13, with extra costs ranging from \$50 to \$520 per house within each jurisdiction.

If the single manufacturer attempted to produce a standard product which would meet the code requirements of the 25 areas, he would have to introduce 75 separate extra factors in materials and/or methods of construction exceeding the normal requirements in model codes and FHA regulations. The cost of each basic home would thus be raised by \$2,492. (See table 9.)

#### TECHNICAL STANDARDS AND NEW PRODUCT REVIEW

Technical standards in building codes originate in the mainstream of the building industry. One of the key problems is the segmented nature of that part of the building industry which generates and maintains standards. There are more than 150 associations and technical groups producing standards to which the building industry is asked to conform. Some of these groups are affiliated with industry-wide organizations such as the American Society for Testing and Materials and the United States of America Standards Institute. Others carry on work associated with the operations of the National Bureau of Standards. In the latter instance, the technical groups may not actively participate in the technical activities of ASTM or USASI.

#### *Interlocking of standards and product approval*

It is significant that half of these standards-generating groups carry on some type of product approval or certification program. Among them are private agencies, such as Underwriters Laboratories, which test products, inspect factories and grant manufacturers the right to apply their label or seal on approved products. They also publish lists of materials and equipment which meet their standards. Included in this group are organizations which provide inspectional and grading services, such as the West Coast Lumber Inspection Bureau.

Very few of the standards-generating groups are in the business of stimulating the development of technological innovations. Their primary activities are concerned with reacting to the work of others. Yet, it is inevitable that the

innovators must sooner or later obtain the approval of these technical groups before their products are accepted for building construction.

The promulgation of product standards by the building industry, for its own use and guidance, is closely intertwined with the development of building code standards. There is an interlocking of procedures and decisions, involving representatives of industry and Government and affecting product and building code standards. The resulting interaction makes it difficult to delineate independent courses of judgment and action. These conditions have been caused by the ever-growing complexity of technology and the structure of the industry. The nature of building construction dictated the establishment of some type of framework that could guide the development, review and acceptance of new methods and materials. A system was required to serve manufacturers, designers, and builders, who must deal with thousands of disparate building products, to enable them to fit the pieces together in structurally sound, weathertight buildings with effective supply and disposal systems. Through trial and error, various institutions were developed by different sections of the industry, with Government participation at times. Procedures evolved to guide and control the development and acceptance of innovations in construction.

The framework that government and industry have developed has proved inadequate for coping with the increasing demands for expeditious processing and acceptance of technological innovations. The ever-growing complexity of building technology and the increasing need to adopt new methods and materials of construction make it necessary to seek a more rational system than the current arrangement.

#### *Hurdles for new products*

By examining the process by which new products are now developed, reviewed and accepted by industry and government, it is possible to appraise not only the current product approval system, but also the role of building codes. The following is a brief outline of the steps that currently must be taken to secure acceptance of a new product, assuming that it can meet existing standards:

(1) The manufacturer undertakes a program of research and development of a new product, intended to meet specific needs and performance requirements that have been established by experts in that particular field. Reviewing this phase, his engineers will consult all available technical literature describing the requirements, standards and conditions which may affect the proposed product, as well as reports on similar products.



(2) The product is tested by a recognized testing laboratory with established test methods and measurement tools to determine whether it meets specific performance criteria. The criteria and standards are established by recognized industrywide technical groups and organizations of building officials.

(3) The product specifications and test data are reviewed and approved by a national trade association, or technical group, or building officials' organization, or technical institution, or certification laboratory.

(4) Local building officials are requested to review and accept the new product under building code procedures.

(5) An educational program is undertaken by the manufacturer to acquaint the design professions, builders, and officials with the value of the new product.

#### *Weaknesses in present procedures*

There are very serious weaknesses in the current framework for carrying out the above activities. The following is a brief critical review of the process, listing the more conspicuous inconsistencies between theory and practice for each item in the above outline:

(1) (a) There is no single point of reference to assist designers and manufacturers in determining whether technical papers have been published in a particular subject area.

(b) There is no single point of reference to acquaint manufacturers, institutions, investors, and professionals with research projects undertaken by others—and their results.

(c) To a large extent, performance requirements based upon user needs, which could guide innovations in the building industry, are absent and await development.

(2) (a) There is no single set of nationally accepted criteria for testing building materials and methods.

(b) Testing laboratories do not conform to a single set of nationally accepted procedures.

(c) Test methods in key areas of inquiry, such as accelerated aging, await further development.

(3) (a) There is no single institution or national system to which members of the building industry could apply for review and acceptance of new methods and materials.

(b) There are over 80 different associations, institutions, technical groups, and laboratories that now establish standards, inspect, certify, grade, or issue seals of approval for proprietary materials and equipment.

(4) (a) As a general rule, local building officials lack the appropriate facilities and technical personnel to judge the merits of new products or methods.

(b) Manufacturers must apply separately to hundreds of communities for product acceptance because approval in one area is no guarantee that others will follow suit.

(5) (a) Educational programs by producers require large expenditures which increase the cost of the product. Innovators and small manufacturers cannot afford the required expenditures during the initial high-risk period for product promotion, after underwriting high costs for research, development, testing, and review by national product reviewing groups.

(b) There is no single source to which designers, builders, and material suppliers could refer to learn about the development of new products.

#### *The big hurdle—local building codes*

Short of contending with competing forces in the marketplace the greatest hurdle to overcome in the product approval process is the local building code. This is more difficult because code standards are neither uniform nor clearly defined. This phase is usually singled out for discussion by dissatisfied members of the building industry because it contains the most conspicuous barriers and applies to every innovative producer. The other phases are voluntary in nature and often provide alternative routes for approval.

The acceptance of new methods or materials depends primarily upon the judgment of local building officials. Except in those rare instances when standards are defined in performance terms, approval is usually based upon opinion and not upon accepted technical criteria. Control over new materials and methods of construction in a building code is usually defined in language similar to the following (*italics added for emphasis*):

Nothing in this code shall be construed to prevent the use of any material or method of construction whether or not specifically provided for in this code *if*, upon presentation of plans, methods of analysis, test data, or other necessary information to the building official by the interested person or persons, *the building official is satisfied that the proposed material or method of construction complies with specific provisions of or conforms to the intent of this code.*

\* \* \* Where no appropriate test method is prescribed in this code, *the test procedure shall be determined by the building official.* (Sections 100.7 and 101.2, National Building Code, American Insurance Association.)

Many building officials try conscientiously to protect the public's best interests. But a community cannot expect its public servants to be fully conversant with all developments in this era of revolutionary technological advances. The rapid growth of specialization in engineering and architecture reflects the inability of the average professional to keep up with all changes.

Except for those rare instances in which the official has special training or experience, he must either seek the assistance of more knowledgeable experts or base his judgment of a new product's merits on his own attitudes. The objective local official who recognizes the shortcomings of inadequate technical staff and facilities will seek the advice of technicians who operate at regional and national levels. But this is not the typical case. One of the serious weaknesses in the present framework is the lack of a single mechanism to which code officials, builders, and professionals can refer such problems and from which manufacturers and material suppliers can obtain universally accepted judgments.

#### SUMMARY OF THE PROBLEMS

##### *Local level*

What is needed at the local level is a system which provides for:

(1) The uniform application of up-to-date building and mechanical codes over an area large enough to allow mass production methods and specialization. At the minimum such an area should cover any of the major metropolitan areas of the United States such as Greater New York, including the contiguous areas of New Jersey and Connecticut; Chicago and its adjoining counties, including Lake County, Indiana; Greater Los Angeles, including Orange County; St. Louis and the East St. Louis and Madison-St. Clair County industrial complex, and similar areas throughout the country.

(2) Minimum standards below which no community might fall and maximum limits in order to prevent restrictive practices. Then the mobile home industry, the prefabricated housing industry, the manufacturers of preassembled plumbing and electrical units, and the producers of new products could be guaranteed an opportunity to build and sell on a competitive price-cost basis provided only that their product or method met minimum standards of performance or specifications established by competent and reliable testing groups through the application of objective standards.

(3) An appeals procedure whereby any arbitrary decisions of a local inspector could be appealed quickly, and without prejudice to the builder or manufacturer, to a body composed of both competent technical personnel and individuals representing the broad public interest.

##### *State level*

The role of the States in these matters is first of all to exercise their police power in useful and constructive ways or to see to it that those to whom they have delegated such authority exercise it properly.

The States should also provide for the uniform application of an up-to-date building and mechanical code over the State as a whole, to apply in those areas where no local code has been adopted or where a community or region fails to adopt uniform code practices and insists on keeping restrictive practices.

The States have a role to play in licensing and training personnel in order to bring about uniformity in applying code provisions and standards.

Finally, the States should provide an appeals procedure, not dominated by either a single person, or the industry, or groups and narrow factions within the industry.

##### *National level*

At the national level the major problems are of a somewhat different order. The contents of the four national model building codes—BOCA, ICBO, Southern and National—are more up-to-date and progressive than is generally assumed. Most of the controversial materials and methods of production are now included under their provisions.

This is not to say that there are no serious defects in model codes. The system for adopting new products and methods has shortcomings. For example, the Southern Standard Building Code turned down plastic pipe as late as 1966 without giving any reason, and its inclusion in that code under two recent modifications is under legal attack which has delayed acceptance. One may raise the question of why a letter ballot should be used by a trade association of building officials to determine approval of a product.

The system is often far too slow. A product which is accepted by one code group is often not accepted by another until a producer has complied with a second or third set of procedures.

Another very proper complaint is that decisions are made by the building code officials and not by a more representative group of the industry, let alone of the general public.

Furthermore, there are no uniform objective standards or tests, or groups of certified agencies for testing, which would make the acceptance of a product or method a question of objective analysis.

Nonetheless, the contents of the national model construction codes have at times received more criticism than they deserve, and sometimes the criticism has been unfounded and misinformed. If these codes could be applied over wide geographic areas without amendment, the present chaotic situation would be remarkably improved.



While there are many problems, most of the basic ones do not now lie with the provisions of the model construction codes as such. Similar generalizations can be made about the National Electrical Code.

But the same cannot be said for the National Plumbing Code which has not been updated since 1955. The slowness in the amending procedure, brought about in part by the conflicts between competing economic interest groups, has led to a proliferation of plumbing codes so that BOCA now has its own plumbing code and the Western Plumbing Code is used in many areas where the ICBO code is in general use.

What is needed, therefore, at the national level, is a system whereby standards of performance based upon the most objective and scientific methods are set by bodies with the highest reputation and prestige. These bodies should represent not only the industry but the general public. The purpose is to make it possible for a producer of a new product or the innovator of a new method or system to have objective standards against which to test his product and to get speedy action.

The system should also provide for a means of certification so that private builders, government officials, and building code groups and experts would have an unimpeachable scientific basis on which to make judgments about products and methods. The assurance by such an objective group that basic performance standards were met should lead to the almost immediate and universal acceptance of a new product or method, both in the building codes themselves and by building officials at the Federal, State and local levels.

With regard to the Federal Government, it is estimated that at least 35 different agencies are directly or indirectly concerned with construction. The standards which they insist upon differ from agency to agency and from department to department. The chaos which exists between and among Federal Government groups mirrors the greater problem of building codes in the Nation. But it ill behooves the Federal Government and Federal agencies to preach to States, localities, and model code groups until they move to put their own house in order.

#### CONCLUSION

In brief, the facts disclosed by the exhaustive inquiries of this Commission at local, State, and National levels, and the problems faced by producers, builders, and professional people in the building industry, show unmistakably that alarms sounded over the past years about the building code situation have been justified. If anything, the case has been understated. The

situation calls for a drastic overhaul, both technically and intergovernmentally. To this end the Commission submits a number of proposals for the consideration of the building industry, government at all levels, and the general public.

#### Recommendations

##### Recommendation No. 1—Framework for development and furtherance of building standards and technology

The Commission recommends the establishment of the National Institute of Building Sciences as a constituent body in the National Academy of Sciences-National Academy of Engineering.<sup>1</sup> The express purposes of the Institute would be to formulate and/or approve standards for the construction of buildings; provide a mechanism for testing and approving technological innovations; provide a system for evaluating experiences of public and private programs affecting building; provide for research in building technology; assemble and disseminate technical data relating to standards and building technology.

We recommend that both public and private technical groups, who presently are responsible for the development of standards relating to building technology and the testing and/or approval of building products, materials and methods of construction, be brought together by this institute. A more orderly framework would be created by joint effort and agreement. The new system would be recognized by the building industry and Government as the nationally recognized authority for the advancement of building technology.

The Academies would be responsible for establishing guidelines to overcome present inhibitions which prevent many sectors of industry and Government from working together for the common good. They would also provide for the staff direction of the technical secretariat of the proposed Institute.

The Academies would not be responsible for direct participation in the operations related to standards development or product approval. Such operations would be directed by a council

<sup>1</sup> We also propose a companion or complementary organization for environmental standards also under the umbrella of the National Academy of Sciences-National Academy of Engineering. It would be concerned with developing objective standards in such areas as housing occupancy, light, open space, noise, schools, parks, density, etc. Together these institutes would form a Council for Development Standards and would coordinate the development of standards for construction and technology, on the one hand, and occupancy and environment on the other, the totality of which would be concerned with those subjects which the Commission considers as "development standards." (This is discussed in detail in Ch. 5, Part III.)

based upon the broadest possible representation of major consumer and public interest groups, professions, builders and producers concerned with building. Agencies at the Federal, State and local levels that are directly concerned with building technology would be represented, but in no case is it contemplated that they represent a majority of the Council membership.

Technical committees in each major category of building technology would be established where considered necessary by the proposed Council. Recognition would be given to the technical committees that are already fulfilling such functions. Such groups would be invited to participate in the proposed framework in order to obtain greater coordination with the work of others.

Technical staff members of the Institute would work with each technical committee, but would not have voting rights. Their tasks would be primarily concerned with coordinating and expediting the work of the various committees in accordance with the operational policies of the proposed Council.

It is proposed that the various national technical groups and organizations that now develop model building codes be brought together as a separate activity to be coordinated with the work of others in the proposed Institute. The tasks of these groups would be to develop a set of acceptable standards for adoption in building codes and related regulations. It is not anticipated that a single national building code would be developed under this organization. Rather, the primary mission for work in this area would be to reconcile the different standards that now exist in the model codes and to establish machinery for updating building code standards in the future. The lack of uniformity that now exists in the area of building code standards could be resolved through this mechanism.

It would be necessary to provide adequate checks and balances within the framework of the proposed Institute to prevent domination by any single sector and to assure that the groups representing the public interest would be in the majority. It is extremely necessary to bring into these operations groups, such as the professional engineers and architects, who have not participated fully in national endeavors relating to standards and product approval.

Activities of the Institute could be financed through a combination of Government appropriations and the imposition of reasonable fees and charges to members of the building industry. Expenditures would primarily support the technical staff and reimburse the representative technical groups for their expenses in behalf of the common endeavor.

### 1(a) Formulation of building standards

The Commission recommends that Congress appropriate at least \$5 million to support the National Institute of Building Sciences for a stipulated 3-year project. The purposes of the project would be, first, to review existing standards regulating the construction of building and, second, to prepare and issue uniform building standards based on current knowledge and the most advanced technical criteria for application in Federal, State, and local regulations.

This recommendation is intended to provide the initial impetus which is urgently needed to establish a single set of building construction standards. The primary mission would be to resolve those differences which now exist among national organizations of technical groups and building officials that generate building standards and model building codes.

The financial assistance for this initial endeavor would also provide for the establishment of the permanent technical secretariat which would be required to administer the operations of the proposed Institute.

By providing sufficient staffing, financial assistance, and direction, the proposed Institute could eliminate much of the weakness in present application of building codes. It is proposed that the Institute assume the role of sponsorship of the technical committees, supplanting the present sponsoring groups which may not feel the sense of urgency for completing work. Responsibility for expediting and coordinating all technical activities of the committees would be under the technical secretariat of the Institute.

It is hoped that institutions, agencies, and technical organizations that now operate separately in the area of building code standards would be brought together for this endeavor. Under this proposal, the model code groups and the National Bureau of Standards, among others, would agree to establish joint technical committees for each subject area. The committees would operate under the procedures and supervision of such organizations as the American Society for Testing Materials and the United States of America Standards Institute.

### 1(b) Provision for performance standards, product approval, and information exchange

The Commission recommends that Congress authorize an annual Federal appropriation to the National Institute of Building Sciences for the following purposes:

(a) To develop and/or approve test criteria and performance standards, and to supervise research in the examination of building materials, construction



methods, and plumbing and electrical and mechanical systems;

(b) To provide a system to test and accept new building materials and equipment, and construction methods;

(c) To provide for the collection and dissemination of available technical data and information relating to the building industry; and

(d) To provide for a system for evaluating experiences of public and private programs affecting building.

This appropriation is necessary to provide for the continuing activities of the proposed Institute. It is anticipated that the financial support from the Government would be augmented substantially by contributions in the form of fees and charges from all sectors of the building industry.

In order to establish a national system for product approval, existing testing laboratories and those that may be established in the future would be accredited by the Institute. Test methods, measurement tools, and performance criteria would be established by the proposed Institute to guide the testing laboratories.

It would be possible for an innovation to be presented to a testing laboratory within the manufacturer's region. He would then have the opportunity to obtain nationwide acceptance of the test results should he decide to market his product across the country and if his product were accepted by the Institute.

It must be emphasized that the machinery and results of the product approval process in the Institute would be advisory. The intention is to provide a central mechanism to serve the building industry and Government agencies. There is no intention to deny manufacturers the opportunity of obtaining product acceptance directly in localities that they may choose. Producers will be able to apply directly to local and State agencies for product acceptance without applying to the proposed Institute.

The proposed product approval system will, however, provide an innovation which has been successfully used throughout Europe. It would give the reviewing technical bodies the opportunity to grant "interim acceptance" or temporary approvals for those products which have no precedents and for which no established test criteria or performance standards exist. The performance of the new product would be evaluated after 3 years, at which time permanent standards for building codes would be promulgated, if the product is proven to be acceptable.

The objectives of the interim acceptance procedure are: To provide an opportunity for pro-

ducers to test their new products in actual building projects, to provide a process which would protect the occupants and building owners, and to provide a mechanism to serve the needs of local building officials who lack the technical data or criteria on which to base their own judgment.

It must be emphasized that almost all of the work for which the Institute would be responsible would be carried on by others. It is anticipated that the Institute would encourage further development of the capabilities that already exist in the building industry and in institutions and universities that are concerned with advancing the state of building technology.

#### **Recommendation No. 2(a)—Use of Federal influence to curb restrictive building code provisions**

The Commission recommends amendment of congressional authorizations for water and sewer and other appropriate facility grants to provide as a condition of eligibility for such grants that building codes in communities receiving such grant assistance shall not be more restrictive than nationally recognized model code standards and subsequently the building code standards to be developed by the National Institute of Building Sciences.

The Commission believes that Federal programs to assist the fiscal development of local communities should require that local communities remove the restrictions in their codes which tend to increase costs and inhibit the use of technological innovations. It was found that the most serious problem relating to current building codes is directly related to local restrictive amendments that are added to the nationally-accepted model codes. This recommendation attempts to create a single set of uniform building code standards which could be used by any locality.

It is not intended that these recommendations for uniformity would interfere with the right or necessity of localities, already recognized in the better building codes, to adopt local specifications addressed to unique geological or atmospheric conditions.

The existence of uniform standards would encourage greater use of mass production techniques, such as those used in the assembly of prefabricated housing. It would, in turn, influence the reduction of housing costs because producers and manufacturers would no longer have to gear their production to the most restrictive code requirements that now exist in some local communities.

The Commission recommends the use of Federal leverage wherever possible in order to obtain greater code uniformity. It would be extremely important to obtain greater uniformity in large cities which, because of their population, are conspicuous examples in the area of restrictive local building codes. Use of the water and sewer grant programs and of the workable program concept to require municipalities to adopt nationally accepted building code standards without local restrictive amendments, are effective measures that could be applied.

**Recommendation No. 2(b)—Formulation of building code standards for rehabilitation housing**

The Commission recommends that Congress authorize the Secretary of Housing and Urban Development to develop model standards to be incorporated in local building codes with special reference to the rehabilitation of existing housing.

There is widespread recognition among code experts that current code standards, which are intended for new construction, should not be applied literally to the alteration of existing buildings. Administrators of rehabilitation programs in cities throughout the country have found that the costs become excessive when present building code standards are followed. Current Federal regulations relating to rehabilitation are very general and carry little weight in local code enforcement, unless the building code is radically amended.

This recommendation is intended to provide for a new set of standards which would be nationally accepted and would reduce costs for residential rehabilitation. It is strongly suggested that the development of standards for rehabilitation be carried out through the existing standards making bodies which will be participating in the proposed program of the National Institute of Building Sciences.

The Institute, if it already existed, would of course be the logical place to lodge responsibility for developing rehabilitation standards. But because, under the most optimistic view, it may be some years before the Institute is functioning, and because there is such an immediate need to improve and expand the rehabilitation programs, the responsibility should be undertaken by HUD. It is urgent to speed up the maintenance and improvement of the existing stock of American homes and apartments; otherwise the prospects for winning the race to create an adequate supply of decent housing appear poor.

**Recommendation No. 2(c)—Eliminating unnecessary variations in Federal construction standards**

The Commission recommends that the President initiate vigorous action to review the variations in standards used by Federal agencies in direct Federal construction, standards based upon nationally recognized current model codes, and subsequently the standards to be developed by the National Institute of Building Sciences.

The Commission strongly endorses an earlier recommendation by the Advisory Commission on Intergovernmental Relations to accomplish these objectives. The Federal Government must set an example for the rest of the Nation in the establishment of uniform standards for building construction. It is regrettable that the earlier recommendation by the ACIR has not as yet been carried out.

The National Bureau of Standards, which is held in very high esteem by technical experts and has had considerable experience in the development and updating of standards, could be given the authority to direct and coordinate the work that must be done with the participation of all Federal agencies dealing with construction contracts. Any further delay in this area would be most unfortunate.

**Recommendation No. 3—Adoption of State building codes and mandating building code uniformity in metropolitan areas**

The Commission recommends the enactment of State legislation providing for the adoption of State building codes dealing with human occupancy, conforming to nationally recognized model code standards developed and/or approved by the proposed National Institute of Building Sciences recommended earlier. We further recommend that such State legislation provide that within 1 year following the adoption of the State code, the provisions of such code shall be applicable without modification throughout each metropolitan area of the State which fails to adopt such nationally recognized standards.

It must be recognized that the States have direct authority over local building codes. Codes are State police power exercised by the localities. The urgent need for uniform building codes standards requires that the States participate to a further extent than they have exhibited up to now in the responsibility for the adoption and enforcement of building codes. We welcome some of the initiatives already taken to bring responsible State officials together.



The Commission recommends that the building code programs now under way in some States, such as New York, New Jersey, and Ohio, be expanded across the Nation. The intent of this recommendation for State building codes is to create greater uniformity of code standards. Any program to develop 50 disparate State building codes would merely extend existing problems. Until such time as a single set of code standards is developed by the proposed Institute, it would be possible and desirable for the States and jurisdictions within metropolitan areas to adopt any one of the existing model building codes. Such steps would create greater uniformity at the local level and provide standards that have been nationally recognized.

Under the above recommendation, it would be possible for a metropolitan area to obtain code uniformity almost immediately. If the communities within a metropolitan area were to adopt a uniform model code to apply throughout the area, there would be no need for the State code to apply. This proposal recognizes that, until there is one set of standards to which the entire building industry and governmental agencies can refer, initial steps should be taken at this time to create code uniformity within metropolitan areas on the basis of general agreement among the localities.

It must be emphasized that the codes to be adopted on a metropolitan area-wide basis should not be more restrictive than the model building codes in general use at this time. Extension of more restrictive code requirements that may exist in the central city or some urban areas to the entire metropolitan area would defeat the intent of this recommendation. This proposal anticipates that one of the model building codes presently used would be adopted upon agreement by the governments in the metropolitan area.

The Commission's findings indicate that a new rational approach to the administration of local building codes must be developed as soon as possible in order to provide required services and competent technical staff in the regulation of local building codes. It is strongly recommended that local governments consolidate the administration of their building departments or use the services of building departments of larger jurisdictions, which usually are equipped with sufficient facilities and technical personnel to handle complex problems.

It is not intended that these recommendations for uniformity interfere with the right or necessity of localities to incorporate specifications addressed to unique geological or atmospheric conditions. The more advanced building codes already do incorporate such specifications.

#### **Recommendation No. 4—Strengthening State supervision over building code administration**

The Commission recommends that States enact legislation providing for (a) statewide training and licensing programs of local building inspectors, (b) technical assistance to local governments, and (c) statewide appeals mechanisms for reconciling differences arising through code interpretation at the local level.

This recommendation is a further extension of the Commission's proposal to the States to broaden their participation in the building code system. The Commission has found that the administration and interpretation of building codes is one of the key problems at the present time.

Proposals that the States provide technical assistance and appeals machinery to localities are based upon the present need to assist building inspectors and members of the building industry in local areas. The absence of a highly trained technical staff has impeded progress in many areas.

Local building inspectors and plant examiners must keep abreast of the ever-growing complexity of building technology. Every effort should, therefore, be made to raise and maintain the technical competence of local building code officials. The administration of building regulations must be carried out by personnel whose professional training and status should be fully recognized by the communities they serve. These recommendations are intended to raise the level of building code administration to a respected professional status.

A fully staffed technical agency should be available at the State level for technical guidance of local officials, especially in those instances where complex construction problems arise. Moreover, there should be an authoritative technical agency to which builders may appeal when there are differences in local code interpretations. Use of such an agency could save builders and contractors the time and expenses that are presently involved in extending court litigation arising from differences in code interpretation.

The National Institute of Building Sciences should formulate model qualifications standards for building inspectors for voluntary use by States. Such standards should be based on technical knowledge of building codes, building practices, and building design (i.e., architecture and engineering).

TABLE 8.—CITIES OF 250,000-PLUS WHICH REPLIED TO SELECTED BUILDING CODE QUESTIONS

Birmingham, Ala.	Jersey City, N.J.
Phoenix, Ariz.	Newark, N.J.
Long Beach, Calif.	Buffalo, N.Y.
Los Angeles, Calif.	New York City, N.Y.
Oakland, Calif.	Rochester, N.Y.
San Diego, Calif.	Akron, Ohio
San Francisco, Calif.	Dayton, Ohio
Denver, Colo.	Cincinnati, Ohio
Washington, D.C.	Cleveland, Ohio
Miami, Fla.	Columbus, Ohio
Tampa, Fla.	Toledo, Ohio
Atlanta, Ga.	Oklahoma City, Okla.
Honolulu, Hawaii	Tulsa, Okla.
Chicago, Ill.	Portland, Oreg.
Indianapolis, Ind.	Philadelphia, Pa.
Wichita, Kans.	Pittsburgh, Pa.
Louisville, Ky.	Memphis, Tenn.
New Orleans, La.	Nashville, Tenn.
Baltimore, Md.	Dallas, Tex.
Boston, Mass.	El Paso, Tex.
Detroit, Mich.	Fort Worth, Tex.
Minneapolis, Minn.	Houston, Tex.
St. Paul, Minn.	San Antonio, Tex.
Kansas City, Mo.	Norfolk, Va.
St. Louis, Mo.	Seattle, Wash.
Omaha, Nebr.	Milwaukee, Wis.

TABLE 9.—CODE ITEMS CONSIDERED BY ONE HOME MANUFACTURER TO BE EXCESSIVE IN VIEW OF GENERALLY ACCEPTED SAFE AND ECONOMIC ALTERNATIVES

The following are the specific code items considered by one home manufacturer to be excessive; that is, more restrictive than would be required by a model code or the FHA Minimum Property Standards. Items refer to codes only in the home manufacturers' market area, specifically in the following counties and cities of six States: Georgia: Cobb and Fayette Counties; Kentucky: Greenup County; Maryland: Anne Arundel, Baltimore, Cecil, Harford, Prince Georges, Washington, and Wicomico Counties; North Carolina: Burcombe and Forsyth Counties; Ohio: Ashtabula, Mahoning, and Medina Counties and the city of Webster-ville; Virginia: Fairfax, Loudoun, Prince William, and Wise Counties; and the cities of Buena Vista, Danville, Norfolk, Richmond, and Virginia Beach.

## CONSTRUCTION ITEMS

Average  
"extra cost"

1. Install stirrup-type joint hangers on each joist at girder intersection instead of other acceptable forms of nailing-----	\$20
2. Aluminum siding must be grounded for supposed electrical protection, although this is often not required-----	30
3. All plywood storm sheathing must be ½ inch thick instead of a smaller dimension-----	40
4. House must be inspected by a registered architect or professional engineer as manufacturing progresses-----	75
5. Install ½ inch asbestos on furnace closet walls as opposed to no asbestos-----	30
6. All window and door openings in exterior and/or interior walls must be double framed with 2 by 4's although single 2 by 4 studs are considered sufficient in many areas-----	40
7. Install a 2 by 4 double plate on all wall partitions; a single 2 by 4 member base is considered sufficient-----	30
8. Roof shingle must be nailed and not stapled--	20
9. Maintain 6 foot by 8 inches of headroom at basement stairway-----	30

## CONSTRUCTION ITEMS—continued

Average  
"extra cost"

10. Floor joist under all parallel partitions must be doubled instead of a single joist--	\$25
11. Trusses must be installed at 16 inches center to center. The structural characteristics of roof framing with trusses would permit larger spacing of at least 24 inches on center-----	100
12. Install a truss adjacent to gable ends. Gable ends are sufficient to support roof-----	40
13. Install No. 15 asphalt-saturated felt paper over ¾-inch plywood where lesser thickness and weight of felt paper would be satisfactory-----	50
14. Install ⅝-inch subflooring as minimum instead of lesser thickness-----	40
15. Subflooring must be nailed and not stapled--	20
16. All plywood subfloor must have blocked edges-----	30
17. A 4 by 6 sill plate must be installed on the foundation wall and properly bolted in place whereas lesser thickness could be used-----	80
18. Half-trusses must be attached at the intersection of both halves when structural continuity could be provided in other ways--	100
19. One-half-inch exterior grade roof sheathing with ply clips, minimum. (As an alternative, ⅝-inch exterior grade plywood could be installed without ply clips.)-----	40
20. Install hinges on overhang at 24 inches on center instead of a larger spacing-----	20
21. Install ⅝-inch roof sheathing as minimum instead of a lesser thickness-----	40
22. Install 3 by 6 rafters and box out as flue framing preparation instead of smaller sized framing members-----	30
23. Ceramic tile on the wall in the wash basin area must be 6 feet from floor instead of a lower height-----	20
24. All hinges at overhang must be covered with polyethylene (this polyethylene is to provide house protection while in transit). Other means of weather protection are feasible-----	80
25. Trusses must be manufactured in accordance with the city of Richmond inspection department. (This indicates that the norm of 33⅓ percent-increase of live and dead load is not permitted)-----	75
26. Install bridging between floor joist although this requirement has been eliminated in many areas-----	25

## ELECTRICAL ITEMS

1. Install 8/3 wire for 3.8-kilowatt load rather than thinner gage wire-----	10
2. All wiring must be installed in a manner to permit removal and replacement without difficulty. This would indicate that the larger portion of wiring must be installed in conduit. A 1½ inch peephole must be provided at all areas without conduit installation. Purpose of this peephole is to permit visual inspection by the use of a flashlight and a mirror-----	150
3. The wiring to be minimum No. 12. (This does not include low-voltage wiring such as used on some thermostats)-----	30
4. Delivery crew is not permitted to hook electrical connections in the attic area-----	---
5. Receptacle circuits to have a maximum of six receptacles-----	10



## ELECTRICAL ITEMS—continued

	Average "extra cost"
6. Furnace must be fused in the furnace closet proper as opposed to other locations-----	\$10
7. Use sta-kon adapters to secure wire makeup prior to application of standard wire nuts instead of other means for securing wire-----	20
8. No. 4 copper ground wire from main panel required on all houses instead of other approved methods of grounding-----	5
9. All wires twisted together must be soldered prior to the installation of wire nuts instead of other approved methods-----	25
10. Light circuits to have a maximum of eight light fixtures per circuit-----	5
11. All electrical wiring is to be accomplished by a licensed electrician in the State of Maryland-----	100
12. Primary mechanical ground wire from the main panel must be metallic sheathed instead of other type of wiring-----	5
13. Install main panel 5 feet 6 inches from the floor to the bottom of the main panel where a lesser height is suitable-----	5
14. Main switch panel must have all circuit breakers at load center with a master disconnect equivalent to the total amperage capacity of the panel instead of other approved methods for such electrical work-----	40
15. Install a No. 12 wire with ground from the main panel to the hood fan for installation of a firestat (firestat to be installed by others) instead of other approved grounding methods-----	12
16. Main panel must be 150-ampere minimum on nonelectrical heated house instead of lower electrical requirements-----	15

## PLUMBING ITEMS

1. All plumbing joints must be left exposed for the purpose of visual inspection; finishing of floors, walls and ceilings must be left incomplete-----	35
2. Do not hook up any drainage requiring additional work on the site rather than in the factory-----	35
3. All water closets and tank combinations to be left unset, requiring additional work on the site rather than in the factory-----	38
4. Delivery crew is not permitted to adjust or hook up any plumbing requiring additional work on the site rather than in the factory-----	---
5. All "P" traps to be 17-gage minimum with group joint and sweated outlet excluding other types of approved connections-----	20
6. Double bowl kitchen sink must have each bowl separately trapped instead of a single trap-----	20
7. Install a 40XL pressure and temperature relief valve on hot water heater instead of another acceptable relief valve-----	10
8. All 1½ and 2 inch vents must be increased to 3 inch vents instead of maintaining constant diameter-----	43
9. All 1½-inch vents be increased to 2" through the roof instead of maintaining constant diameter-----	20
10. All 3" vents must be increased to 4-inch vents instead of maintaining constant diameter-----	10
11. Install sanitary "T" along turn. (This is a sanitary "T" with an approximately 45° angle between the horizontal inlet and vertical outlet)-----	25

## PLUMBING ITEMS—continued

	Average "extra cost"
12. All roof vents must have 2-lb. pure lead flashing of high-boot type instead of other comparable approved flashing-----	\$14
13. All roof vents must have 4-lb. pure lead flashing of high-boot type instead of other comparable approved flashing-----	20
14. All roof vents must have 6-lb. pure lead flashing of high-boot type instead of other comparable approved flashing-----	25
15. All nipples must be brass instead of other materials-----	10
16. All nipples or runouts must be copper (no galvanized nipples permitted) or chrome instead of other materials-----	10
17. All plumbing must be copper instead of other materials-----	70
18. Main vent stack must be 4-inch minimum instead of lesser diameter-----	50
19. Do not hook up any "P" traps, (Water test to be performed by local inspection department.)-----	20
20. No wet vents permitted. (No water permitted in venting system)-----	30
21. Install a 4-inch by 8-inch drum trap on bathtub instead of other approved traps-----	10
22. Kitchen sink must be a long turned pattern "TY" on waste outlet instead of other approved methods of drainage-----	10
23. All bathtubs must be trapped with a 3-inch by 6-inch drum trap instead of other approved methods of drainage-----	10
24. Main vent stack in bath area must be 4-inch minimum instead of lesser diameter-----	40
25. Shower stall must be 36 inches by 36 inches instead of other dimensions-----	50
26. All vertical and horizontal plumbing installed in the manufacturing plant must be exposed from finish floor to finish ceiling. Finishing of other construction must be left incomplete-----	50
27. All vent stacks must protrude 12 inches above roof line instead of other approved dimensions-----	20
28. Install a lead pan under all shower bases regardless of type instead of other means of water protection-----	50
29. Domestic hot water must be piped from boiler with ¾-inch copper pipe instead of piping of different dimension and material-----	---
30. All electric hot water heaters must be separately metered. Therefore, a 3-pole separate switch box must be installed in addition to the main panel-----	50
31. All plumbing, drainage, waste and vent size must be 2-inch minimum instead of lesser diameter-----	30
32. "P" traps under double bowl sink must be cast with polished ground joint union instead of other approved means of drainage-----	25
33. Air chambers must be installed on all hot and cold water lines sized as follows: the air chamber will be 12 inches in length and 1 standard increment in size above the right size, (i.e., a ½-inch riser supply will require a ¾-inch air chamber)-----	70
Total-----	<sup>1</sup> 2,492

<sup>1</sup> The total does not imply that all added costs would apply to any single home in one code jurisdiction. But it approximates the added cost if one completely standardized home, acceptable in each of these jurisdictions, were to be marketed.

## CHAPTER 4

# Housing Codes

The Commission was charged with examining housing codes to see if local property owners and private enterprise could be encouraged to meet a larger part of total housing needs; to consider the impact of housing codes on housing costs; and to determine how housing codes might be simplified, improved, and enforced at the local level.

This was a considerable task because at almost all levels of government there are conflicting policies as to what housing codes are and confusion as to what they should do, how they can be enforced, and what role, if any, they should play in helping to provide an abundance of decent housing for the American people.

Is their purpose to upgrade housing in the slums or only to prevent deterioration in the "gray" areas? Are they to establish "minimum" standards of health and safety or do they have a larger role to play in providing decent housing in a suitable living environment? Are they to be enforced only in special areas or should they apply to all housing, urban and rural, central city and suburb, in affluent neighborhoods as well as in the slum? Are they to be enforced in areas awaiting urban renewal or only in concentrated areas not yet ready to be put under the bulldozer?

Can they be enforced effectively or does that action merely result in putting people "out in the street" or into already overcrowded housing?

Where repairs are made and housing upgraded, does such action result in increased rents and thus place minimum housing beyond the reach of those whom good code enforcement was designed to help?

Do present codes, even when adequately enforced, bring about a level of housing which meets even the minimum conditions of health, safety and welfare?

Can every family in every city be guaranteed that the local code will be enforced and that the result will be a "minimum" level of housing which is fit to live in?

Should there be different codes for different problems? Should the old-law tenements, built under ancient standards, have to meet the latest housing code provisions? Should the same standards apply to rehabilitated housing as to existing or new structures?

Does the requirement that a city have a workable program increase or deter the building of needed housing projects, including public housing for the poor? Does the program work? Is it enforceable? Is it worthwhile?

These are some of the questions which confront any study of housing codes in urban centers.

In its hearings in more than 20 major cities, the Commission inspected housing code programs and took detailed testimony from expert witnesses. In Baltimore, where the first hearings were held, it examined the area of one of the first modern code enforcement programs as well as more recent examples of rehabilitated housing areas where code enforcement was essential to success. The Commission heard from officials of Baltimore's unique housing court. In virtually every one of the remaining 20 major cities, the Commission examined code enforcement areas, urban renewal projects, rehabilitated housing, and the housing code problems and issues associated with these areas, programs and projects.

The Commission heard not only the experts but also the residents of the areas where the issues and questions concerning housing codes and their function and enforcement were so clearly drawn.

In addition, the Commission organized an orderly review and study of the issues involved. It called together a group of housing code experts to organize and carry out studies aimed at establishing the facts and examining the most difficult problems in the field. As a result, it commissioned a series of studies.<sup>1</sup> These in-

<sup>1</sup> A carefully organized and integrated series of research led to the following studies: "The Present State of Housing Code Enforcement," Robert L. Hale, Program Coordinator, National Association of Housing and Redevelopment Officials; "The Development, Objective and Adequacy of Current Housing Code Standards," Eric W. Mood, Associate Professor of Public Health; Yale University; "A Comparative Analysis of the Administrative Section of Housing Codes," Barnett Lieberman; "Inadequacies and Inconsistencies in the Definition of Substandard Housing," Oscar Sutermeister, Assistant Director of the Commission staff; "Housing Code Administration," Joseph S. Slavet, Lecturer in Urban Affairs, and Melvin F. Levin, Director of Research, Area Development Center, both of Boston University; "Legal Remedies for Housing Code Violations," Frank P. Grad, Associate Director, Legislative Drafting Research Fund, Columbia University; "Costs and Other Effects on Owners and Tenants of Repairs Required Under Housing Code Enforcement Programs," Joseph R. Barresi, Secretary, Boston Municipal Research Bureau.

The chapter on housing codes in the Commission's report is in large measure built upon and contains passages taken from the reports by these experts, generally without specific attribution. Their expert contributions are gratefully acknowledged and most are being published separately.



cluded a review of present programs<sup>2</sup> and practices at all levels of government; a study of codes and code standards; the examination of the basic concepts and potential goals of housing codes, and the organization needed to carry them out; legal and other remedies for housing code violations, and a study of the costs associated with code enforcement, repair, and compliance.<sup>3</sup>

#### WHAT IS A HOUSING CODE?

A housing code is an application of State police power put into effect by a local ordinance setting the minimum standards for safety, health and welfare of the occupants of housing.<sup>4</sup> It covers three main areas:

(1) The supplied facilities in the structure, that is, toilet, bath, sink, etc., supplied by the owner;

(2) The level of maintenance, which includes both structural and sanitary maintenance, leaks in the roof, broken banisters, cracks in the walls, etc.;

(3) Occupancy, which concerns the size of dwelling units and of rooms of different types, the number of people who can occupy them, and other issues concerned on the whole with the usability and amenity of interior space.

Modern programs to protect the public health and safety in housing started in the mid-19th century.<sup>5</sup> While it is difficult to identify the pioneers, credit is generally given to Edwin Chadwick in England and Lemuel Shattuck in the United States for identifying unsanitary housing as a cause of illness and for recommending remedial programs.

<sup>2</sup> For identification of Federal programs, see note 1, Hale, chapter 6.

<sup>3</sup> The Commission or its staff also consulted with the housing codes division of NAHRO, the HUD workable program personnel (Messrs. Burton Young and Dan Taylor) and other experts (Messrs. Robert Reichel, Leonard Czarniecki and Leo Stern), interested personnel in HEW, the Program Area Committee on Housing and Health of the American Public Health Association, the Public Health Service, the model code groups, and other public and private parties concerned with housing codes and associated problems.

Additionally, in order to collect data concerning the field, the Commission included key housing code questions in its census survey (Research Report No. 6) with special reference to the number of cities with housing codes, funds spent for general code enforcement purposes, and the number and salary of code personnel. Furthermore, it examined in voluminous detail the actual standards and provisions of about forty-five local and State housing codes throughout the country to determine what standards were used and how these compared with the model codes.

<sup>4</sup> However, relevant legislation also includes state enabling acts for local housing code adoption, state housing legislation, general state legislative provisions relating to the criminal process and other enforcement sanctions, state legislation granting power to use equitable remedies, including injunctions and receiverships, and power to make repairs and impose the cost as a lien, and state laws on real property as related to tenant rent strike remedies. See Note 1, Grad, Chapter 1, "Housing Codes as a Function of State and Local Lawmaking." For a technically more adequate definition and description of a housing code, see Note 1, Grad and Mood.

<sup>5</sup> For a brief history of the development of housing codes, see *supra* Note 1, Mood, Chapter 2.

Housing reform in the United States began in earnest in the 1890's and 1900's with the passage of tenement legislation. In 1914, the Russell Sage Foundation published "A Model Housing Law" by Lawrence Veiller, a landmark in early housing reform.<sup>6</sup>

While a number of cities adopted housing ordinances in the 1910's, the modern version of a housing code is considered by some to have come into being when the city of Baltimore amended its city code in 1941 to require that:

\* \* \* dwellings be kept clean and free from dirt, filth, rubbish, garbage, and similar matter, and from vermin and rodent infestation, and in good repair and fit for human habitation, and authorizing the Commissioner of Health in Baltimore City to issue orders compelling the compliance with said provision or to correct the condition, at the expense of the property owner, and charge the property with a lien to the extent of the necessary expense.

#### SUMMARY OF GENERAL FINDINGS

A host of problems and questions arise concerning housing codes. Wide divergences of opinion exist among code groups and governments at all levels with respect to the purpose of housing codes, how they should be enforced, and the standards they should provide.

##### *Existing housing codes*

The provisions established in the codes for "minimum" standards of health, safety and welfare are often inadequate to provide even a "minimum" level of performance for the bulk of the population. A house can meet the legal standards set in a local code, pass a housing code inspection, and still be unfit for human habitation by the personal standards of most middle-class Americans.

There is an obvious and urgent need for action to bring the provisions of housing codes up to an actual minimum level of health (including physical, mental and social well-being), safety and welfare.

Our most important single finding, however, is that minimum standards, while enforceable, are often unenforced. Although intended to apply citywide, the inspection of housing and the enforcement of housing codes are frequently carried out only in limited areas, generally excluding both the worst and the most affluent neighborhoods.

This is due, in part, to various Federal policies. For example, code enforcement funds have

<sup>6</sup> See U.S. Department of HEW, Public Health Service, *Environmental Health Protection of the U.S. Population through Housing Codes*, Second Preliminary Edition, June 22, 1964; Grad, *Legal Remedies for Housing Code Violations*, Chapter 1, "Housing Codes as a Function of State and Local Lawmaking"; and Hale, "Present State of Housing Code Enforcement," Chapter IV, C, "State Programs." Grad deals with other state housing legislation in addition to the modern comprehensive statewide housing code.

been available mainly in those areas where blight can be arrested and dwellings upgraded. Areas which have hit bottom or where blight has not yet set in have been largely ignored.

The primary need, therefore, is for enforcement of housing codes vigorously over the entire geographic area of adoption. Such enforcement is a never-ending task.

Furthermore, as can be seen from our census survey figure of only 5,000 housing codes in the country, hundreds of cities and counties, most States, and virtually all rural areas do not have housing codes. Thus, a third need is to extend the coverage or application of housing codes to those jurisdictions whose residents do not now enjoy this type of environmental health protection.

These three steps could greatly improve and upgrade the present housing inventory. But it is almost impossible to say, even in those areas where a code is actively enforced, that because of code enforcement all residents will live in housing which meets a minimum standard of health and safety. Housing codes, alone, cannot do that job.

To reach the three stated goals, a number of additional steps must be taken along with code enforcement. Among these are:

(1) An adequate supply of temporary or relocation housing must be available so that the occupants of below-minimum housing do not have to be put out in the street or moved into worse conditions of deterioration or overcrowding when the code is enforced.

(2) The total amount of housing built for low-income groups and for society in general must be substantially increased. In the long run, effective housing code programs will depend on the existence of an abundance of new housing, the demolition of dilapidated and deteriorated housing, and the natural working of the filter-down process.

(3) Adequate loans, grants, and other incentives and aids to low-income homeowners, landlords, and tenants must be provided to promote repair to code standards, in order that the enforcement of housing codes does not merely increase housing costs and thus make standard housing economically inaccessible. Since the provision of at least a part of new and rehabilitated housing for the poor by society is a long acknowledged responsibility—through public housing, moderate-income housing, rent supplements, welfare payments, and so forth—the provision of adequate aid for housing code administration nationwide is clearly within this recognized duty of society.

In summary, we must enforce the codes, extend their coverage, and improve them, and in order to do these three things we must also build an abundance of new housing, create additional standard relocation housing through repair, and provide the funds for at least the needy owner or occupant to meet minimum code requirements without an undue burden.

Even this, however, while it would vastly improve the existing situation, would be wholly inadequate. Much more should be done.

#### *From a minimum code to decent standards*

Even if present housing codes were brought up to the level of minimum standards of health, safety, and welfare, and applied and enforced universally, they would *not* provide for the standard of housing and residential environment called for in the 1949 Housing Act—a decent home and a suitable living environment for every American family.

We should either take the national goal seriously and propose ways of meeting it, or be honest and drop all pretense that we as a nation mean business. This Commission believes in meeting the goal and facing up to the fiscal requirements and policy problems at every level of government, and proposes the means of doing this.

In the housing code area two main actions are indicated:

*First*, we should begin now to determine the standards for code provisions which would provide a "decent home." The requirements in existing codes on space, light, air, plumbing, maintenance, occupancy, and so forth, often do not meet such a requirement.

Through an Institute of Environmental Sciences, such as we recommend, or a similar group of both public and private experts, work should now begin to develop the standards for such a code. A first task is to examine the existing standards and the objective bases on which they were determined. That process alone, we are convinced, would indicate that in many cases the standards are extremely low and have little objective basis.

The *second* step would be to set up the research, testing, and processes whereby a determination of standards for a "decent home" can be made.

If we are to reach the housing goals of the 1949 act within the next decade, as the Housing Act of 1968 reaffirmed and this Commission proposes, this task must begin now and must be completed within the next few years. In that way, standards for a "decent home" can gradually be substituted for the "minimum" standards now only imperfectly developed, adopted, and enforced.



### *Environmental standards*

The 1949 act also calls for a "suitable living environment." Presently there are virtually no codes which establish standards for a suitable living environment.

Yet experts in the field and the informed public know that even the finest house built next to an industrial plant, overwhelmed by fumes from factory smokestacks, located in a slum without adequate police protection, streets, lighting, or open space, or surrounded by concrete freeways, does not meet the 1949 goal and cannot long be maintained as a viable housing unit. Anyone who has passed through Gary, Ind., on a windy day, visited Watts, or stayed overnight in East St. Louis knows this to be true.

The few existing standards in this area are generally devoid of objective basis. What, for example, is the acceptable noise level which a standard should provide? Almost no codes now even mention this subject. What are the standards for open space, housing density, or for schools and their location? Occasionally one finds a standard to which the community can repair, but with few exceptions such standards were provided accidentally, haphazardly, or arbitrarily.

To meet the 1949 goal, we must also extend the scope and area coverage of standards for the residential environment. We must develop and adopt throughout our urban areas what might be called a neighborhood conservation code. Its purpose would be to conserve and upgrade the residential environment. It would apply to all property, public as well as private and non-residential as well as residential, in residential neighborhoods and in areas or properties affecting the environment in residential neighborhoods.

The development and adoption of these new tools—a housing code based on standards of a decent home, and a neighborhood conservation code to provide standards for a suitable living environment—are the major means by which codes can play their proper part in meeting the goals of the 1949 act.

We believe that this can be done not only for the purpose of protecting health and safety, but also under the general welfare clause.

The key national model codes are the American Public Health Association code (APHA), in which most of the standards for health are found and upon which the health standards in many of the other codes appear to be based, and the housing codes of at least three model building code groups; namely, ICBO, BOCA, and the Southern.<sup>7</sup>

<sup>7</sup> See *supra*, Note 1, Mood, for detailed identification of the national model codes.

The APHA code was first published in 1952 and was developed by the Committee on the Hygiene of Housing of the American Public Health Association organized in the 1930's under the chairmanship of Dr. C. E. A. Winslow. It was the first national model code.

When the workable program concept was established under the 1954 Housing Act, with its requirement for a codes element, it stimulated the development of additional housing codes by the model building code groups and the adoption of housing codes by many cities and a few States. In general, the model housing codes of the building code groups include many provisions or standards with respect to the structure of housing which are based on their own building code, plus a number of health and occupancy standards which follow to a considerable degree the APHA provisions.

### *Local codes*

Until the workable program requirement was introduced, relatively few cities actually had housing codes. As late as 1956, 100 or fewer of the larger cities had housing codes. The number has increased rapidly since then, and the Commission's detailed census survey indicates that in 1968, 4,904 local governments out of 17,993 surveyed had housing codes.<sup>8</sup> Of these, HUD has estimated that some 3,000 now have or once had or were committed to have housing codes under the workable program provisions. The total of close to 5,000 is still only about one out of four (27.3 percent) urban communities in the United States.

Within SMSA's 85 percent of the cities of 50,000 or more have codes, as do 53 percent of those between 5,000 and 50,000. A special sample survey of governments of 5,000 or more both within and outside SMSA's indicated that almost half (47 percent) of them, in about the same proportions inside and outside SMSA's, had housing codes.

The 4,904 local governments with housing codes are classified in table 1.

TABLE 1.—LOCAL GOVERNMENTS WITH HOUSING CODES

Type of government :	Number of governments with housing code, 1968
Counties .....	211
Cities .....	3,976
Townships (New England type) .....	717
Total .....	4,904

Source : See note 8.

<sup>8</sup> National Commission on Urban Problems, *Local Land and Building Regulation*, Table 1, Research Report No. 6, 1968. Municipalities and townships of less than 1,000 population outside of SMSA's were not surveyed.

Table 2 recapitulates available data on the rapid expansion of the number of housing codes in the United States.

It is clear that, except in a few score municipalities, the history of housing code administration as a national development is barely 12 years old. In reviewing the failure and shortcomings, as well as the successes of code administration, including enforcement, it must be kept in mind that we are examining what is in some respects and in most municipalities a very recent legal and administrative development. Patterns of organization and techniques of performance have not, in most instances, had an opportunity to stabilize. Many aspects of the new field remain fluid. Much of the administrative organization of the code compliance effort still seems to be on an experimental trial-and-error basis, and many questions with respect to personnel and performance have never been asked, let alone answered.

#### HOUSING CODE STANDARDS

What standards now exist in housing codes? Are they too high or too low? Are they based on objective standards? Do they conflict with one another or with other codes? Do they provide a currently acceptable minimum level of

TABLE 2.—INCREASE IN HOUSING CODES<sup>1</sup>

Year	Number of housing codes	Source of data
1911.....	1	Edith Elmer Wood. <sup>2</sup>
1919.....	6	Do. <sup>2</sup>
1956.....	56+	HHFA study. <sup>3</sup>
1958-59.....	164	NAHRO directory. <sup>4</sup>
1961-62.....	341	Do. <sup>5</sup>
1962.....	670	URA Codes and Building Standards Branch. <sup>6</sup>
1964-65.....	498	NAHRO directory. <sup>7</sup>
1964.....	(787)	PHS survey (8 States not reported). <sup>8</sup>
1968.....	(2,972)	Workable Program Office estimate for workable program cities only. <sup>9</sup>
1968.....	4,904	National Commission on Urban Problems survey. <sup>10</sup>

<sup>1</sup> Footnotes 2 through 10 indicate certain other items included in addition to true housing codes. State tenement house laws of the early 1900's are not included.

<sup>2</sup> Edith Elmer Wood, "Recent Trends in American Housing" (New York: the MacMillan Co., 1931).

<sup>3</sup> Urban Renewal Administration, Housing and Home Finance Agency, "Provisions of Housing Codes in Various American Cities," Urban Renewal Bulletin No. 3, 1956.

<sup>4</sup> National Association of Housing and Redevelopment Officials, Housing and Urban Renewal Directory, 1958-59. Summary table of official local agencies listed in directory, p. 232, column headed "Housing code, other slum prevention agencies." Believed to include cities promising in their workable program submissions to adopt a housing code.

<sup>5</sup> Ibid., directory, 1961-62. Summary table of official local agencies listed in directory, pp. 274-5, columns headed "Housing code or other slum prevention agencies," and "Combined renewal and housing code agencies."

<sup>6</sup> Housing and Home Finance Agency, Urban Renewal Administration, Codes and Building Standards Branch, "Communities Adopting Housing Codes," June 30, 1962.

<sup>7</sup> NAHRO, op. cit., directory, 1964-65, pp. 322-3. Summary table of official local agencies listed in directory, columns headed "Type of agency—codes, housing renewal codes, renewal codes, renewal codes crp."

<sup>8</sup> U.S. Department of Health, Education, and Welfare, Public Health Service, "Environmental Health Protection of the U.S. Population Through Housing Codes," Second preliminary edition, June 22, 1964. Includes 3 State codes and 1 commonwealth code.

<sup>9</sup> U.S. Department of Housing and Urban Development, Workable Program Office. See text.

<sup>10</sup> Supra, note 8. Excludes State housing codes.

health, safety, and welfare? Properly enforced, do they meet the goals of the 1949 Housing Act?

To answer these questions, the Commission staff collected a series of housing codes, organized and listed the standards from a number of substantive and administrative categories, and subjected them to evaluation by housing code experts.<sup>9</sup>

#### Substantive content of housing codes

The codes compared for substantive standards were the four model housing codes, nine State housing codes (some mandatory and some models for local adoption), and 16 city or county housing codes. The latter were selected to provide a representative cross section. The codes used were those provided to the Commission by the cities in response to our request for the latest and most up-to-date version.

With respect to substantive standards, nine major items were evaluated. These were dwelling unit occupancy provisions; sleeping room occupancy provisions, required facilities for bathrooms, kitchen, heating, and electrical service; solid and liquid waste disposal; lighting; and ventilation.

The detailed examination of these standards showed that there are wide variations among them; that they are often in conflict; that the variations are so great that by definition they could not be based on scientific or objective standards; that many provisions are couched in subjective language—"adequate," "in safe condition," or "in good repair"; that many of the objective standards are based on a combination of tradition, rule of thumb, or personal experience; and that they differ in emphasis from structure to health, depending upon the code adopted.

The Commission was surprised at the generally low level of substantive standards.

The results of the analysis of substantive standards are given in the Commission's research study on standards. Results in the single area of occupancy standards are summarized here as an illustrative sample.

#### Dwelling unit occupancy standards

To provide as comprehensive a picture as possible of dwelling unit occupancy standards, determinations were made of the minimum number of square feet of habitable floor space re-

<sup>9</sup> The original tabulations were developed by Commission staff (Miss Ellen Zachariasen) and by housing specialists (principally Mr. Steve Cowan) of the U.S. Public Health Service National Center for Urban and Industrial Health, Cincinnati, Ohio. Items tabulated conformed generally to the headings used in Housing and Home Finance Agency, Urban Renewal Administration, "Provisions of Housing Codes in Various American Cities," Urban Renewal Bulletin No. 3, 1956, expanded to cover subsequent code developments. Revised and refined tabulations were subsequently developed by Commission consultants Eric Mood and Barnett Lieberman for use in their studies. See note 1, supra.



quired for one-, two-, three-, four-, and five-person occupancy of dwelling units. The results of these calculations for local, State, and model codes are presented in tables in the Commission's supporting study on housing code standards and will be summarized here.

There is uniformity of dwelling unit space requirements for occupancy by one to four persons, inclusive, of the APHA-PHS Recommended Housing Maintenance and Occupancy Ordinance, the BOCA Basic Housing Code, and the Southern Standard Housing Code (referred to hereinafter as APHA-PHS, BOCA, and Southern Housing Codes, respectively).

The International Conference of Building Officials (ICBO) housing code does not specify the minimum amount of habitable space in the dwelling unit on an occupancy basis, but it can be determined by indirect calculation.

TABLE 3.—DWELLING UNIT OCCUPANCY REQUIREMENTS, 4 NATIONAL MODEL HOUSING CODES  
[Floor area in square feet]

Code	Required floor area				
	1 person	2 persons	3 persons	4 persons	5 persons
APHA-PHS.....	150	250	350	450	550
BOCA.....	150	250	350	450	550
ICBO.....	200	200	290	330	380
Southern.....	150	250	350	450	525

<sup>1</sup> 150 is not prohibited, but the higher standard is recommended.

Source: Model housing codes by organizations named.

These figures assume that the occupants are over 21 years of age. Space does not include the bath, hall, foyer, etc.

State and city codes showed a wider variation than the model codes. Note especially the range from lowest to highest given in columns 4 and 5 of table 4.

As a result of this examination, one may ask:

Why should the ICBO standard be so far below the minimum health standard of the other model codes?

Why do a number of cities retain space standards below the minimum health level set forth in most of the model codes?

The requirements of the State and city housing codes tend to follow the patterns of the particular model code used as a guide, modified in some cases according to local conditions.

In general, the dwelling unit occupancy standards of State housing codes seem to be more stringent than those of city housing codes. They tend to establish a higher level of housing quality, perhaps because of their more recent adoption.

#### General evaluation

There is considerable difference in the amount of habitable space that constitutes minimum requirements for occupancy of a dwelling unit, particularly if the dwelling unit is to be occupied by several persons. The APHA-PHS and BOCA Housing Codes requirements are considerably greater than those of the ICBO Housing Code for more than one-person occupancy. For five-person occupancy, the ICBO Housing Code requires only 69 percent of the habitable space required by the APHA-PHS and BOCA Housing Codes.

The minimum values of all codes examined are at great variance with recommendations of the APHA Committee on the Hygiene of Housing found in "Planning the Home for Occupancy"<sup>10</sup> This publication, which was prepared in 1949, lists the following amounts of *total* floor area (*not* habitable space) that should be provided if the objective of healthful housing is to be attained:

	<i>Square feet</i>
For 1 person.....	400
For 2 persons.....	750
For 3 persons.....	1,000
For 4 persons.....	1,150
For 5 persons.....	1,400
For 6 persons.....	1,550

Of these figures, the subcommittee on occupancy standards said, "they represent the essential space requirements of a dwelling which,

<sup>10</sup> American Public Health Association, Committee on the Hygiene of Housing, *Planning the Home for Occupancy*. (Chicago: Public Administration Service, 1950), p. 36. Although eighteen years old, this study is still considered the most thorough analytical work on healthful housing.

TABLE 4.—DWELLING UNIT OCCUPANCY REQUIREMENTS, 25 STATE AND LOCAL HOUSING CODES, AS COMPARED TO THE MAJORITY OF NATIONAL MODEL HOUSING CODES

Occupancy (persons)	Model code standard		State and city codes					
	Codes (number)	Floor area (square feet)	Minimum (square feet)	Maximum (square feet)	Below model (number)	Equal to model (number)	Above model (number)	Not specified (number)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
1.....	3	150	80	200	4	12	2	7
2.....	3	250	120	260	5	12	1	7
3.....	3	350	170	360	5	12	1	7
4.....	3	450	200	450	6	11	0	8
5.....	3	550	270	550	7	10	0	8

Source: Commission study on housing code standards. See note 1, Mood.

without extravagance, will make physical and emotional health possible.”<sup>11</sup>

It seems quite clear that the adequacy of some—if not all—housing code dwelling unit occupancy standards is questionable. It is apparent that some housing codes are accepting conditions that fall far short of the minimum allowable by other codes. *A reexamination of the sufficiency of dwelling unit minimum space requirements is in order.*

Should not the minimum health standards of the APHA-PHS model code, other model codes, and State and local codes, be raised at least part way toward the level of requirements “deemed essential to make physical and emotional health possible”?

#### *Sleeping room occupancy standards*

Data concerning the minimum number of square feet of habitable floor space required for occupancy of rooms used for sleeping by one, two and three persons have also been analyzed in detail. There is some uniformity in the requirements for occupancy by one person, but the uniformity is less pronounced for occupancy by two or more persons.

A summary of the standards in model, State and city codes is given in table 5.

#### *Children*

Those State and local codes which had special standards for children's sleeping area permitted even more crowding for them. For example, in any city adopting the Southern Standard model housing code, two children under 12 years could sleep in a room of 70 square feet or 7 by 10 feet, while three children under 12 years could use a room of 105 square feet or a room 10 feet by 10 feet 6 inches. In cities using the Kentucky State model code, three children under 7 years could use the same room.

#### *Conclusions on substantive standards*

A number of conclusions can be made about the differences in, and adequacy of, the substantive standards in the 29 local, State and model

housing codes subject to examination by the Commission's staff and consultants.

(1) The standards for *occupancy* and for *installed facilities* having a strong relationship to health are fairly uniform among model and specific codes with respect to items covered and the general nature of the standard. The reason for this is probably that most code drafting groups have followed the APHA model code on questions of health.

(2) With respect to *repair and maintenance*, on the other hand, codes vary considerably between those issued by building official groups and those originating with health groups. The latter use short, general phrases like those in the APHA-PHS model: sound condition, good repair, safe to use and capable of supporting the loads, constructed and installed in conformance with the appropriate ordinances, conform to applicable State and local laws, etc. The former refer to specific sections in the companion building code. ICBO carries this to such an extent that the ICBO housing code of 13 pages is published with an appendix of 100 pages which quotes from the ICBO building code. This practice encourages cities to adopt the housing code which is tied to their building code. It would appear that a better arrangement would be to develop a single set of standards on maintenance, facilities and occupancy which could be adopted by the various model housing code groups. These would be appropriate for use with most building codes. Model building codes should be reviewed for changes needed to bring uniformity and to reduce costs of enforcing housing code maintenance provisions.

(3) The standards on *dwelling unit occupancy* are reasonably uniform among model codes except that ICBO standards are unusually low for occupancy by three or more persons. About half the State and local codes match the model code standards, while the other half are lower or have no standard specified. None of the code standards on the subject of occupancy approaches the 18-year-old criteria developed by APHA for the “minimum floor space necessary for the performance of 10 specific activities of family living.”

<sup>11</sup> *Ibid.*

TABLE 5.—SLEEPING ROOM OCCUPANCY STANDARDS IN 25 STATE AND LOCAL HOUSING CODES AS COMPARED WITH THE PREDOMINANT STANDARDS IN NATIONAL MODEL HOUSING CODES, 1968

Occupancy (persons)	Model code standard				State and city codes			
	Codes (number)	Floor area (square feet)	Minimum (square feet)	Maximum (square feet)	Below model (number)	Equal to model (number)	Above model (number)	Not specified (number)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
1-----	3	70	70	120	0	14	6	5
2-----	2	100	80	160	3	12	5	5
3-----	2	150	110	240	3	13	4	5

Source: Commission's research study on housing code standards.



(4) Standards for *sleeping room occupancy* conform fairly well to the model codes. However, any standard of 50 square feet per occupant or less for multiple occupancy is questionable.

(5) In view of the Federal disregard of *over-occupancy* as a type of substandardness, the lack of census data on occupancy in relation to local code standards, and the widespread absence of compliance with existing occupancy provisions, one should not become complacent about occupancy conditions, particularly in low-income housing.

(6) Standards for *bathroom* facilities are generally good with respect to the type of facility and private use by a single family. But these standards are weaker regarding location within the dwelling unit. Some sharing of the full bathroom is still permitted, and sharing of the toilet only is even more widely permitted. Such sharing standards should be eliminated as quickly as possible. Two remaining problems are the obsolescence of fixtures (not covered by the codes) and the lack of sanitary maintenance, a practice which is in violation of the codes.

(7) Standards for *kitchen* facilities are generally weak. Only the APHA-PHS 1968 model code requires a stove and refrigerator to be installed while the dwelling unit is occupied, and the true intent is clouded by statutory complexity.

(8) Standards for *heat* are rather uniform and generally adequate but need more explicit detail. Unit or space heaters are not adequately controlled in many codes. Maintenance of equipment and the actual provision of heat are more severe problems in practice than the problem of standards.

(9) Standards for *light* are reasonably adequate on window size, but no assurance is provided for light penetration to the far end of a long, narrow room or into an ell. Daylight obstruction standards are uniformly low. The low daylight standards ignore the question of mental health and the amenity aspects of privacy.

(10) Typical minimum standards for *ventilation* with respect to obstructing walls or structures are less than half those recommended by Veiller in 1914, for one-story buildings, and even less for multistoried buildings. Typical standards for the size of windows to ventilate rooms are also far under the 1914 recommendations. It would appear that present standards for daylight obstruction and for window size may be grossly inadequate even though they are relatively uniform. The uniformity appears to derive from copying the 1952 APHA model

code. Standards for size of the window itself may be more adequate than standards for daylight obstruction.

(11) Standards for running *electrical service* to a house from a nearby powerline are minimal. In general, the 300-foot figure appears to be very outdated. Standards for the amount of service to be provided inside the house vary somewhat with the model and specific codes. All models except the Southern Standard code appear to be inadequate on service capacity.

(12) *Liquid waste* disposal standards appear adequate. *Solid waste* disposal standards call only for sanitary maintenance in general and suggest the type of container to be used, but do not require actual use. In view of the severity of the problems of trash, litter, garbage, et cetera, in slum areas, it is believed these standards should be broadened to include adequacy as well as type of on-site storage facilities, and to insure denial of food and harborage to rats.

(13) Most housing codes lack the specificity required of an effective legal instrument to provide adequate control of *rats*, apart from questions of solid wastes management mentioned above.

(14) Each housing code enforcement agency should accept responsibility for checking the building code applicable to its area of jurisdiction to assure that new construction standards in no case fall below housing code standards and in every case are complete enough to require that all housing code standards will be met by new residential construction.

A knowledgeable person would conclude after examining the standards in the codes that much remains to be done to achieve minimum standards for health and safety, let alone desirable or decent conditions.

#### *Administrative provisions of housing codes*

The quality of the administrative provisions written into a housing code greatly affects the impact which the code may have upon quality of housing, regardless of whether substantive standards are set high or low.

To review these matters, a separate study was made of the administrative provisions of the four principal national model codes (APHA-PHS, ICBO, BOCA, SSHC) and of a sample group of 37 municipal and nine State codes. The municipal codes included those of 35 cities and two counties, while the State codes included three mandatory codes of statewide application, five model codes developed by State agencies for local adoption, and one State code under development.

### *Scope of application*

One of the most basic concerns is that a code apply to all existing dwellings as well as to new construction. The basic concept of a housing code is founded on this premise: the housing code is intended to regulate facilities, maintenance and occupancy of all dwellings, and particularly of the older dwellings which may be technologically obsolete, undermaintained to the point of dilapidation, and unconscionably overcrowded. One of the finer accomplishments of the workable program office and the codes and building standards branch of HUD has been their persistent and successful pressure to ensure that codes approved in Workable Program certifications and recertifications do not exempt existing dwelling units, or any specific types of existing dwelling units.

With respect to model codes, we found that there is a question whether some of the national model codes are fully applicable to all existing buildings. Their lack of clarity on this point need not be excused when it is a simple matter to state the scope of application with no ambiguity, as is done in the 1968 APHA-PHS model code:

1.02. *Purposes.* It is hereby declared that the purpose of this ordinance is to protect, preserve and promote \* \* \* prevent and control \* \* \* regulate \* \* \* by legislation which shall be applicable to all dwellings now in existence or hereafter constructed.

Of the municipal ordinances and State codes analyzed, only 32 percent of the ordinances and 44 percent of the codes specifically provided that the ordinance or code shall apply to all buildings, even where no code existed at the time of their construction. In other words, less than half of the ordinances and codes are made applicable to all existing structures.

### *State and local codes*

A comparative statistical analysis was made of 197 detailed aspects of administrative powers and procedures, covering the following: powers to enter and inspect; required procedures for notice of violation, hearings and appeals; powers to eliminate substandard conditions; penalties for noncompliance; regulation of apartments, rooming houses, boarding and lodging houses; power to act in emergency; conflict with other laws; invalidity of any ordinance or code provision; power to recover costs of repairs or demolition by code agency; definition of a dwelling.

The statistical analysis was based entirely on the *specific* provisions of the ordinances and codes reviewed. The results with respect to some of the provisions may be misleading because in actual practice many code agencies, for various reasons, do not fully administer and enforce

some of the provisions in their respective codes or have developed procedures which may not have been spelled out in the ordinance or code. For instance, some municipalities do not make an inspection for compliance with the local codes before issuing a license. The municipalities which have the specific power to make repairs or to demolish a substandard property when an owner fails or refuses to comply with violation notices rarely exercise this power, except for such emergency purposes as cleaning up a seriously defective drainage system, cutting noxious weeds on vacant lots, or demolishing an imminently dangerous building. Usually such actions are taken by the code agency under the municipality's common law "power to abate nuisances" rather than under the specific provisions of a housing ordinance or code. Most municipalities allow and, in many cases, encourage the review of an inspector's notice of violation at the request of the property owner even if such review is not provided for in the local ordinance or code.

A few items from the statistical analysis are presented in table 6 to indicate the nature of the results.

TABLE 6.—SAMPLE ITEMS FROM STATISTICAL ANALYSIS OF ADMINISTRATIVE PROVISIONS OF HOUSING CODES

Provision	Percent of codes studied having specified provision	
	Local	State
Power to enter and inspect at reasonable time.....	91	67
Written notice to be served naming specific violation found..	86	67
Formal conference.....	83	44
Power to make repairs or demolish.....	40	33
Maximum fine or prison term specified.....	64	44

### *Conclusions on administrative provisions*

From the comparative statistical analysis of existing housing codes, the following conclusions are drawn:

(1) Except for a few "traditional" provisions, very few of the ordinances or codes have similar administrative powers, and the powers actually set out have been shown to be too weak and ineffective to prevent deterioration or to improve the quality of housing.

(2) Despite the great increase in the number of municipalities and States adopting housing ordinances and codes and the slow but steady progress in raising the minimum housing standards in these laws, little has been done to improve the provisions dealing with administrative powers, procedures, and sanctions.

(3) The factors involved in this situation have been (a) political fear and reluctance on the part of local officials; (b) the position of HUD that administration is purely a local matter, and therefore beyond HUD's concern; (c)



the strong resistance of HUD, until recently, to Federal financial assistance for local code enforcement; and (d) the HUD "pressure" on local communities to adopt one of the national model codes without apparent recognition of the fact that these codes differ in some important administrative matters and fail to provide for many new approaches, procedures, and sanctions found effective over the past 5 years.

For instance, all the ordinances and codes reviewed still call only for criminal penalties. None specifically provides for civil monetary penalties, injunctions, and receivership, for stronger power to the code agency to do the necessary repair work, for proceeding under "the abatement of nuisance" theory, for preventing retaliatory evictions, or for giving tenants any rights against a violating landlord.<sup>12</sup>

(4) Many of the deficiencies mentioned can be corrected only by State enabling legislation. HUD must begin promptly to convince State and municipal governments to pass the necessary legislation.

Pending the establishment of the National Institute of Environmental Sciences recommended by this Commission, HUD should call together the national housing code groups, APHA, ICBO, BOCA, SBCC, and the National Association of Housing and Redevelopment Officials (NAHRO) in an effort to develop a chapter of minimum standards for housing code administration, procedures, remedies, and sanctions for inclusion in model housing codes.

(5) HUD should urge State governments (a) to enact State model codes with strong administrative provisions and make these codes mandatory in metropolitan areas unless local communities enact similar or stronger codes within 2 to 3 years, and (b) to provide technical and financial assistance to local communities in strengthening and improving the administrative activities of the codes.

#### PRESENT EFFECTIVENESS OF HOUSING CODES<sup>13</sup>

Although housing codes generally say "No person shall occupy as owner-occupant, or let to another for occupancy, any dwelling unit which does not comply with the following requirements," etc., it is readily apparent that most housing codes are not administered effectively enough to achieve full compliance even

with minimum requirements for health and safety. The continued existence of slums and blighted areas in many cities which have housing codes provides inescapable evidence of this fact.

The most widely available generalized data are those published by the U.S. Bureau of the Census in the decennial census of housing for the categories of housing quality identified as "dilapidated," "deteriorating," and "sound but lacking certain plumbing facilities." Any dwelling unit falling into one of these three categories is almost certain to be in violation of the local housing code, if one exists. Since national census data cover urban and rural areas which lack housing codes as well as those which have them, national census totals cannot be equated generally with figures (if they are available) for dwelling units not in compliance with existing housing codes. However, it is fair to say that if housing codes were adopted throughout the land, all the dwelling units falling into these three census categories would most probably be in violation of the housing code applicable to them.<sup>14</sup> The housing units which in 1960 were dilapidated, deteriorating or lacking in certain plumbing facilities constituted the percentage of the total U.S. housing stock shown in table 7.

A second measure of the inadequacy of housing code administration is given in the 1960 census figures in nonwhite occupied housing units classified as deteriorating, dilapidated or sound but without full plumbing. For 14 of the largest U.S. cities, table 8 indicates in percentage terms a large quantity of nonwhite occupied housing units which certainly were in violation of the local housing code. Many additional units with other types of housing code violations are not included.

TABLE 7.—PERCENTAGE OF HOUSING UNITS IN THE CENSUS CATEGORIES<sup>1</sup> OF DILAPIDATED, DETERIORATING AND SOUND BUT LACKING CERTAIN PLUMBING FACILITIES, UNITED STATES, 1960

	Percent
Total United States.....	18
Total SMSA's.....	11
Central cities inside SMSA's.....	11
Other than central cities inside SMSA's.....	10
Outside SMSA.....	31
Urban.....	10
Rural.....	36

<sup>1</sup> These categories do not cover all housing code violations, but it is presumed that every housing unit falling in any one of these categories would contain one or more housing code violations, if the unit were covered by a housing code.

Source: U.S. Census of Housing: 1960, volume 1, U.S. Summary, tables 9 and 12.

<sup>14</sup> The question of differences between Census data and housing code violation data is dealt with in the Commission's research study on housing code standards. See Note 1, *supra*.

<sup>12</sup> See *Edwards v. Habib Case*, District of Columbia Circuit Court of Appeals and Houston Legal Foundation recommendations to City Council, "Law in Action," OEO, p. 12.

<sup>13</sup> For discussion and analysis of responsibilities falling on local, state and Federal governments and the private sector for effectiveness of housing code administration, see *supra*, Note 1, Hale, Chapters IV, V and VI.

TABLE 8.—PERCENTAGE OF NONWHITE OCCUPIED HOUSING UNITS DEEMED IN VIOLATION OF LOCAL HOUSING CODE BY VIRTUE OF CENSUS CLASSIFICATION,<sup>1</sup> 14 LARGE U.S. CITIES, 1960 CITY

	Percent
New York.....	42
Chicago.....	43
Los Angeles.....	18
Philadelphia.....	32
Detroit.....	30
Baltimore.....	32
Houston.....	37
Cleveland.....	34
Washington, D.C.....	21
St. Louis.....	52
San Francisco.....	34
Dallas.....	46
New Orleans.....	57
Pittsburgh.....	59

<sup>1</sup> Dilapidated, deteriorating, and sound but lacking certain plumbing facilities. These classifications do not cover all housing code violations.

Source: Basic data from U.S. Department of Commerce, Bureau of the Census.

These figures indicate again that urban housing needs, expressed in terms of use of sub-standard housing, are widespread among non-whites in the major central cities. Among these 14 major cities, the percentage of housing units occupied by nonwhites, which by definition was below housing code standards, was more than 50 percent in three of them. It was *below* 30 percent in only two cities. In the remaining nine, the percentage was between 30 and 50.

The figures not only indicate the deficiencies in the housing supply, but also reflect the fact that the task was too great for the housing codes to cope with—there were inadequate standards, administration, financial resources, or will to make them effective. Discrimination may have been involved.

A third measure of the ineffective administration of housing codes should be available from the statistics on dwelling units with housing code violations reported periodically under the workable program requirement of HUD. While such statistics have been compiled, the Department of HUD considers them sufficiently questionable to withhold them from release.

As part of this Commission's studies, data were collected from a fourth source which gives an accurate though fragmentary picture of the extent of incomplete compliance prior to use of Federal aid for housing code enforcement. These data report on the progress of the initial inspection stage of federally aided concentrated code enforcement programs in 12 cities across the country. By definition, none of these areas was a severely blighted area or a slum. Under current regulations for Federal aid for concentrated housing code enforcement, the areas in

which code enforcement work was undertaken were (by statutory limitation) of sufficiently good quality that housing code enforcement together with certain improvements in community facilities would "prevent further decline of the area." The percentage of buildings which would be found in violation of the housing code, or the number and severity of code violations, or both, would be much higher in the poorer sections of these cities than in the sections inspected and reported upon in table 9.

TABLE 9.—RESIDENTIAL BUILDINGS WITH HOUSING CODE VIOLATIONS IN CONCENTRATED CODE ENFORCEMENT PROGRAM<sup>1</sup> AREAS OF SELECTED U.S. CITIES, 1968, TOGETHER WITH YEARS OF WORKABLE PROGRAM CERTIFICATION

City	Residential buildings inspected in concentrated code enforcement area		
	Number inspected	Percent found in violation of housing code	Years certified workable program in effect <sup>2</sup>
	(1)	(2)	(3)
San Francisco, Calif.....	2,210	85	13
Baltimore, Md.....	9,063	70	13
Malden, Mass.....	1,181	51	9
Cincinnati, Ohio.....	3,499	82	13
Mansfield, Ohio.....	580	90	5
Salem, Oreg.....	201	98	6
Lancaster, Pa.....	505	90	10
Philadelphia, Pa.....	6,554	81	13
Providence, R.I.....	2,691	49	10
Chattanooga, Tenn.....	1,536	88	12
Fort Worth, Tex.....	1,640	54	12
Grand Prairie, Tex.....	1,337	35	11

<sup>1</sup> Federally aided under sec. 117 of the Housing Act of 1949, as amended.

<sup>2</sup> Counted from year of original certification. Mansfield is only city reported by HUD to have had significant gaps between annual recertifications.

Sources: Cols. 2 and 3, "Costs and Other Effects on Owners and Tenants of Repairs Required under Housing Code Enforcement Programs." Prepared for National Commission on Urban Problems by the Boston Municipal Research Bureau, 1968; col. 3, HUD Workable Program Office.

The data on concentrated code enforcement areas show a disappointingly small degree of full housing code compliance accomplished prior to the start of the federally aided programs, even though certified workable programs had been in effect for up to 13 years. However, this record should not be taken to indicate that there is no hope for the future. While the past has been disappointing, a study conducted for the Commission as a survey of the present state of housing code enforcement in the United States concluded among its findings that "housing code enforcement is on the threshold of constituting a far more significant element of a community's overall community development activities than it has been in the past."<sup>15</sup>

Among the major reasons for this hope is that many communities have only recently adopted codes for the first time. The new codes, if enforced, can gradually make a major change in

<sup>15</sup> *Supra*, Note 1. Hale.



the quality of housing and in the degree of protection of health and safety provided to occupants. But to do this, the Nation must produce an abundance of new housing for low-income families, vigorously enforce housing codes, and provide enough temporary and relocation housing to make the system work.

#### NEW GOALS FOR ADMINISTRATION OF PRESENT HOUSING CODES

What is now generally termed housing code enforcement should, in the future, be viewed more broadly as housing code administration, just as one speaks of zoning administration rather than zoning enforcement. The Commission and its consultants believe that more effective results can be anticipated if three basic programs are included in housing code administration: (1) a neighborhood improvement and code compliance program, (2) a housing services program, and (3) a housing data program.

##### *Neighborhood improvement and code compliance program*

This program should be systematic, citywide and closely tied to a general cooperative effort to improve physical and human resources. It should have four separate thrusts.

*Slum areas.*—If the urban renewal process has entered the survey and planning stage in a given project area, there should be at least a limited program in that area to remove pressing dangers to health and safety through code enforcement and Federal interim assistance as authorized in the 1968 Housing Act. If urban renewal treatment is in the more distant future, full code enforcement leading to repair or demolition should be applied, accompanied by sufficient construction of new low-income housing to permit all displaced families to relocate in standard housing.

*Gray areas.*—These areas are basically sound but declining. Full code enforcement aided by all available supplementary programs should be used. The latter would include local public and private efforts, State assistance where available, and Federal assistance for urban renewal rehabilitation and conservation projects and for concentrated code enforcement projects.

*Good areas.*—Full code enforcement on a systematic basis should be carried on here, using cycle inspections scheduled toward the end of the communitywide cycle. Exterior inspection between cycles should detect obvious violations. Interior inspections between cycles could be limited to complaints and spot checks.

*Entire city.*—Overall, housing code administration should be placed in a community de-

velopment context, rather than the traditional regulatory context, and should be enlarged to cover environmental as well as dwelling conditions.

A variety of services and incentives should be used to achieve a high level of voluntary compliance. These could include neighborhood offices for services being rendered under the program, community organization and information services to keep residents involved in and informed about all aspects of the program, technical advice and assistance to property owners on rehabilitation and mortgage financing, educational services to train tenants in the proper care of housing, concentrated social services to tenants, and municipal improvements to upgrade the neighborhood.

Special attention should be given in the neighborhood improvement and code compliance program to the important role and needs of tenants, especially those in multifamily dwellings. The following special approaches are suggested to deal with this problem:

Tenants should be trained in the proper use of their dwellings.

Arrangements should be devised to foster closer and more positive landlord-tenant relations and to stimulate tenant participation in the maintenance and rehabilitation of the buildings in which they live.

Home ownership should be expanded, since it holds long-range promise for achieving continuing high standards of housing maintenance.

##### *Housing services program*

The housing code administration agency should develop a second important function of providing the following housing services to public and private agencies:

*To the planning agency.*—Surveys and inspection of housing on behalf of the local planning agency to determine housing conditions and degree of blight, as part of communitywide and neighborhood planning studies.

*To the urban renewal agency.*—Inspection of housing on behalf of the renewal agency for the preparation of survey and planning applications in connection with designated renewal project areas; inspection of houses to be rehabilitated, and enforcement of compliance with the urban renewal rehabilitation requirements; certification through inspection that housing to be used for relocating persons and families displaced by urban renewal meets relocation standards.

*To the relocation agency.*—Planning and administration of relocation operations either through statutory or administrative directive

or under contract with public agencies which cause displacement.

*To the public housing authority.*—Determination on behalf of the local public housing authority of what must be done to bring housing intended to be leased or purchased by the authority up to housing code standards, and periodic reinspection to determine that the standards are maintained.

*To nonprofit housing groups.*—Inspection and related services on behalf of nonprofit housing corporations as part of their acquisition, rehabilitation, operation, lease, and sale of housing to low-income persons and families.

*To others.*—Other direct services: (1) inspectional and related services to banks in connection with the issuance of certificates of code compliance; (2) central information services to individuals and institutions (private corporations, universities, etc.) concerned about the codes status of housing of their employees, students, etc.; (3) the operation of a housing bureau in low-income neighborhoods which would serve as an information center on housing of standard quality available throughout the city; and (4) inspectional and related services to the local welfare and antipoverty organizations.

#### *Housing data program*

The housing code administration agency should assume a third function of creating and maintaining a local housing data system. Data would consist principally of a continuing housing inventory based on cycle, complaint, license and permit inspections, surveys, and rehabilitation, demolition and enforcement reports. Cities as small as 15,000 population can develop a computerized housing data system, while smaller governments may use the facilities associated with a metropolitan, county or State data bank. Data would be used in the provision of services described above.

#### ISSUES IN HOUSING CODE ADMINISTRATION

Why have housing codes been administered so ineffectively that we still have slums, blighted areas and widespread noncompliance with code provisions? Nineteen years after establishment of a national goal of a decent home and a suitable living environment for every American, why have housing codes been unable to bring the housing inventory up even to minimum health and safety standards?

For housing codes to be administered with full effectiveness, society must address itself to a wide variety of social, economic and political factors underlying the existence of slums and blight.

Some of the factors which presently limit the effectiveness of housing code administration are:

#### *Private sector factors*

##### *Poverty*

In contrast to the large slum landlord, many owner-occupants are simply too poor to pay the cost of removing housing code violations. Some live in slums, others in deteriorating neighborhoods where the occupants have grown old with the houses.

Experience with a test program of massive code enforcement in the slums of Providence, R.I., showed that 35 percent of the violations were never corrected.

The Commission's study of code enforcement costs has revealed that in the better areas of a city where Federal aid for code enforcement is now being used,

\* \* \* the typical recipient of a [section] 115 rehabilitation grant is likely to be, literally, a little old lady, probably living on social security with almost no other resources. In fact, many of the [section] 117 areas seem to be characterized by an aging—middle-aged and up—population. The numbers of elderly and moderate-income recipients of grant and loan funds make one wonder whether some sort of medicare-medicaid program for sick houses could be devised.<sup>10</sup>

##### *Preference for nonhousing expenditures*

Educational level, class status, social background, neighborhood environment—factors such as these influence the decisions owners make as to how to spend their income. Should it go for needed housing repairs or for repairs to the car in order to get to work, children's education, TV repair or a new set, or other consumer goods that may yield a greater satisfaction than housing repair? Similarly, in the case of tenants, all other uses of time may be considered personally more rewarding than trash removal, yard maintenance, or the making of minor building repairs. This may be especially true if a city has allowed a neighborhood to deteriorate and the effort of any one individual seems ineffective in fighting general neighborhood conditions. Low-income tenants frequently have many personal and family problems which take precedence in their minds over structural and sanitary maintenance. Homemaker training and other types of tenant education seek to treat the basic problem in such cases. But the community and the local government must be involved as well.

<sup>10</sup> *Supra*, Note 1, Barresi. This research report constitutes the principal work of the Commission on code enforcement costs.



### *Profit motive*

Some absentee owners, whether major slum landlords or local small-businessmen investors, own code violating properties for the major purpose of maximizing income. Money spent on repairs reduces profit, and is likely to be spent grudgingly. The main purpose of ownership may be to obtain accelerated depreciation which offsets the income derived from the property or other sources, thus reducing net taxable income and the income tax paid, and increasing the net retained income and cash flow.<sup>17</sup>

Where a tax *shelter* is not the primary goal, needed repairs may simply reduce net income so sharply that the owner will resort to court delays and other legal maneuvers to spend the absolute minimum for upkeep.

### *Local government factors*

#### *Governmental reluctance at the local level*

A major factor in poor code compliance may be the reluctance of a local government to support a strong program of housing code administration. This is generally seen in a failure to budget for an adequate inspection staff and for those housing services which are essential to the effective administration of a code before moving to legal enforcement.

*Budgetary inadequacies* may, in turn, be based on a variety of reasons, many related to political acceptability of alternative local government expenditures. In the past, the poor have been relatively silent and unseen; underfunding of housing code enforcement may not have produced an outcry significant enough to bring change.<sup>18</sup>

Governmental reluctance to act may appear in the office of the corporation counsel (city attorney) as well as in the council chamber. The best compliance program can be undone by ineffective prosecution or by absence of prosecution.

Finally, the deliberate *refusal to adopt a workable program*, in order to stymie federally-aided housing for the poor or near-poor, has been the reason for the lack of a housing code in some localities.

### *Loss of housing*

Assuming the best intent, funding and prosecution, code enforcement may be purposely blunted by the local government in a situation of short housing supply in order to avoid the loss of dwelling units that might be vacated on

court order and then held vacant by the owner to avoid the cost of repairs. Commission studies on this point have led to the conclusion (at least in Boston, and the Boston housing code is less stringent than many) that strict enforcement on a mass basis would lead to mass abandonment of properties by their owners and/or higher rents with resultant occupant displacement.<sup>19</sup> When mass enforcement is applied to properties that have been heavily milked and are under rent control, as in the Brownsville section of Brooklyn, N.Y., mass abandonment will occur if alternative housing is *not* in short supply. In Philadelphia, without rent control, strict code enforcement has developed thousands of vacant, dilapidated houses, most of which are tax delinquent. In this case, the city's acquisition of these properties at tax sale has given it a valuable large inventory of structures which are now being fed into the city's scattered housing rehabilitation program. This program is conducted jointly by the local public housing authority and the Philadelphia Housing Development Corp., a nonprofit corporation.

Thus, it is essential that there be an abundance of housing for the low-income population in order to enhance the feasibility of strict housing code enforcement.

### *Blight from vandalized vacancies*

Buildings left vacant, especially in poorer areas of a city, are vulnerable to vandalism and arson. If a city's powers are weak or its procedures cumbersome for demolishing vacant structures, it faces the threat of creating new blighting influences by housing code enforcement action that produces as an end product a vacant vandalized structure. The end result should be, instead, either demolition with a neat cleared lot or a building repaired to meet code standards. As a step in this direction, the 1967 revised model housing code developed by the American Public Health Association and the Public Health Service provides that a city may (a) repair at a cost up to 50 percent of market value, if the owner has refused to do so; and (b) demolish a structure declared unfit for human habitation, if the owner does not do so. The program of Federal aid for demolition (sec. 116) is very helpful with this problem.<sup>20</sup>

### *Relocation*

One problem with strict code enforcement is the possibility of leaving a poor family on the sidewalk with no place to go, if local relocation or welfare agencies do not or will not provide relocation housing. Several Federal aid pro-

<sup>17</sup> See National Commission on Urban Problems, *The Federal Income Tax in Relation to Housing*, Research Report No. 5, 1968.

<sup>18</sup> For a discussion of problems of staffing and financing, see the Commission's research report on Housing Code Administration. (*Supra*, Note 1, Slavet).

<sup>19</sup> *Supra*, Note 1, Barresi.

<sup>20</sup> *Supra*, Note 1, Hale.

grams (starting with urban renewal) have in recent years made it mandatory that relocation housing be found, meeting specified requirements for quality, price and location. Though this effort may have been less than fully effective, existing local housing codes do not even contain such a requirement. As a result, there is variation from city to city in the level of enforcement. Some cities believe they must proceed with vacating action within the strict time limits set by the code. Others use the real or claimed lack of relocation housing as an excuse for nonenforcement.

#### *Narrow range of remedies*

Several of the model codes and many individual local codes have a limited number of enforcement remedies, usually a fine and jail sentence for lesser violations and placarding (vacating) for major ones. None of these by itself accomplishes the job of correcting the violation and returning the house to the usable housing inventory. Most housing codes need modernization to provide an arsenal of alternative compliance tools to increase the possibility of accomplishing repair.<sup>21</sup>

#### *Environmental degradation*

The legal theory underlying a housing code states that the specified minimum level of housing quality must be maintained on each privately owned residential property for the principal structure, outbuildings, fences, and premises. Nothing is said, in the typical housing code, about private nonresidential properties, such as stores and factories—how they are mixed in with homes; how much noise, smoke, dust, or glare they make; how many signs they put up; how well they are maintained and landscaped. Nothing is said in the typical housing code about the adequacy of public lands such as parks and playgrounds; public structures such as schools, libraries, fire and police stations; or even public facilities such as rights-of-way for access, paving for streets, exclusion of nonneighborhood traffic, sidewalks, storm sewers, street lights, street trees, and street signs. All these are important to the quality of housing, because they are or could be part of the immediate neighborhood and the residential environmental. The more degraded the environment, the more difficult it is to preserve housing quality. The incentives for private maintenance and pride in one's surroundings can be dealt crushing blows by lack of public maintenance, by lack of courageously and sensitively exercised public control over the intermixtures of incompatible land uses, and by

simple failure to provide necessary public facilities. For these reasons, effective housing code administration must be accompanied by aggressive, thoughtful consideration of the residential environment and of remedies appropriate to its deficiencies. Environmental deficiencies breed housing code violations. Hard-won code compliance, once achieved, is likely to evaporate in such an atmosphere.

#### *Court weaknesses*

Enforcement of housing codes has, for the most part, been entrusted to preexisting legal machinery. But courts which may have served well in private litigations of torts and contracts or in preserving the public order have not been as well equipped for the enforcement of housing codes.

As in all criminal prosecutions, a violator of a housing code must be physically before the court in order for it to exercise jurisdiction. The personal serving of process on an all too often "will o' the wisp" landlord can result in months of delay.

In most communities criminal prosecutions of housing violations are tried before a magistrate or other judge of the lower judiciary, together with disorderly conduct, assault and petit larceny cases. As a result of the usually overcrowded dockets, long delays and minimal amounts of time spent on each case are usually the rule.

The harried judge usually finds such housing cases nuisance litigations. Lacking any expertise in housing law, the typical judge exhibits a deep-seated reluctance to consider housing code violators as criminals. This hesitancy is partially due to the nature of a violation; in a social welfare crime, an evil intent or *mens rea* is not required for conviction. Jail sentences, although authorized in most codes, are almost unheard of in actual practice.

Judicial permissiveness toward recalcitrant landlords is further reflected in the imposition of low or nominal fines. In most instances, a defendant will plead guilty and engage in repairs just before sentencing. In appreciation of this "cooperativeness," the courts will not treat this owner much more harshly than the owner who does extensive work without legal delays.

Prosecutions for code violations usually are brought by the local corporation counsel. To the municipal law department, housing cases are just another variety of minor ordinance violations that is dealt with in perfunctory manner.

Although courts are more willing to utilize civil remedies provided for in a number of codes, the use of such remedies by the local prosecuting authority usually has been minimal. Municipal authorities rarely use the mechanism

<sup>21</sup> *Supra*, Note 1. Grad.



of civil suit. Civil litigation involves detailed pleadings with much paper work, as compared to the relative ease of criminal prosecution. Furthermore, in many jurisdictions there can be years of delay, due to heavy backlogs, before a trial date is at hand. Finally, a municipality must follow the same procedures as a private party in collecting a judgment placed on the docket with all private judgments. The judgment must await collection by traditional mechanisms of execution upon property of the defendant. However, new approaches to civil remedies suggest that this entire area needs re-examination.<sup>22</sup>

*State Government factors—Lack of State support*

Part of the reason for incomplete geographical coverage by housing codes and less than full compliance with those that exist is lack of support from most State governments. The police power resides in the State and is delegated by the State to the city. After such delegation, the State often shows little concern as to whether or how the power is used. The State seldom monitors the adequacy of local use of the police power.

Many States have shown no interest in housing quality. Few States have a housing program or a department of State government devoted to housing. California, New York, Georgia, New Jersey, Pennsylvania, Connecticut, and Kentucky are perhaps the most active. Where State assistance is available with respect to housing codes and their administration, it is likely to be through an environmental health activity of the State health department or an agency devoted to community affairs or community development in general. More widespread involvement of State governments is needed.<sup>23</sup>

*Federal Government factors—Inadequacies of support*

While the Federal Government does not exercise the police power and thus participate directly in enforcing local housing codes, the financial assistance it is now giving to local housing code enforcement efforts through the section 117 concentrated code enforcement program is the most important boost to code enforcement since the passage of the Widnall amendment<sup>24</sup> in 1964 and the establishment of the Workable Program in 1954.<sup>25</sup>

On the other hand, conflicting standards and inadequate support from the Federal Government in critical policy and program areas are most serious handicaps to really effective housing code administration, as is summarized below and detailed in the Commission's research study on housing code standards.

Many specific areas of inadequate Federal support and conflicting Federal standards, even as to the meaning of the term substandard housing, have been identified and analyzed. We find that there is pervasive Federal neglect of and even opposition to the effective use of housing codes, although this does not excuse those State and local governments which fail to provide any program at all.<sup>26</sup>

*Inadequate and inconsistent definitions*

The accomplishments of many specific Federal housing programs, and indeed the thrust of the total Federal housing program, are vitally affected by the standards used to determine what is "standard" housing and what is "substandard" housing. A related and equally significant question is whether "standard" housing is the same as "decent, safe and sanitary" housing and a "decent home."

The Commission made a careful analysis of the various definitions of substandard housing as the phrase is currently used. Details of the analysis are reported in the research study on housing code standards.

We found there is no single definition of substandard housing. Many conflicting definitions are used by different groups in connection with various programs.

The following examples of conflicting definitions may serve to make the point:<sup>27</sup>

(a) *HUD's Office of General Counsel* approved for general public distribution through the Consumer Relations Office a definition of substandard housing limited to those dilapidated dwelling units which endanger health and safety or lack private toilet, bath or hot running water.

(b) *The Senate Subcommittee on Housing and Urban Affairs* of the Committee on Banking and Currency printed for Members of Congress and the public a list of three Census of Housing categories making up substandard housing: sound lacking plumbing, deteriorating lacking plumbing, and dilapidated.

(c) *The ICBO model housing code* lists 39 deficiencies, any one of which makes a residential building substandard.

<sup>22</sup> *Supra*, Note 1, Grad.

<sup>23</sup> *Supra*, Note 1, Hale.

<sup>24</sup> The Widnall amendment requires adoption and six months' effective administration of a housing code as prerequisites for Workable Program approval.

<sup>25</sup> For a description of Federal assistance programs related to housing code administration, with an evaluation of their contributions, see Note 1, Hale, Chapters IVB and VI, and Robert P. Groberg, *Urban Renewal Programs*, report to the Commission, 1968.

<sup>26</sup> *Supra*, Note 1, Hale, Grad.

<sup>27</sup> A detailed analysis of twelve different definitions and a brief account of how the Commission arrived at its own definition are included in the Commission's study on housing code standards under the heading Inadequacies and Inconsistencies in the Definition of Substandard Housing by Sutermeister.

(d) *The St. Louis Housing Code* defines as substandard all buildings used for purposes of human habitation which do not conform to the minimum standards established by the "Minimum Housing Standards Law."

There should be a single widely used definition, and we so recommend in this report.

The Commission also finds that both definitions and data for substandard housing used in most Federal housing activities are *inadequate* (in addition to being inconsistent with one another), because they are arrived at by combining sets of data from the U.S. Census of Housing which correspond in no more than a *fragmentary* manner with the standards set forth in accepted minimum standard housing codes.

Standard housing is generally considered to be that which meets minimum code standards.

Housing which is above the substandard level (as that level is often defined by units of the Federal Government) is not necessarily standard housing (as that level is usually defined by both Federal and local interests). There is a nameless gap for housing that falls between the standard and substandard levels.

Into this gap fall dwelling units having—  
No kitchen sink.

No required window in a habitable room.

Undersized rooms.

Overcrowding.

Dozens of other conditions prohibited by the housing code but not making the unit substandard according to HUD.

Failure to clarify the definition of substandard housing and to use it consistently creates a built-in element of predictable failure in many Federal housing programs. Congressional decisions on authorizing and funding specific programs are consistently and repeatedly based on housing needs data which are inadequate because of this use of an inadequate definition of substandard housing. A new type of housing quality survey should be added to the Census of Housing, to report on housing needs in terms of housing that is substandard according to code requirements.

#### *Reliance on clearance to eliminate substandard housing*

The goal of the Federal housing programs is expressed in the Declaration of National Housing Policy found in the Housing Act of 1949.

With respect to substandard housing, the Declaration of National Housing Policy indicates that "clearance of slums and blighted areas" is the only way to eliminate "substandard and other inadequate housing," or that clear-

ance is the only method required by the "general welfare and security of the Nation and the health and living standards of its people."

There is no recognition in the declaration that the legal tool of the minimum standard housing code, in use for over 60 years, is available for widespread application as an alternative method of "eliminating substandard and other inadequate housing."

Many years of experience have proven conclusively that clearance alone cannot proceed fast enough to eliminate substandard and other inadequate housing in the foreseeable future.

The principal reasons are:

Insufficient funds;

An inadequate supply of relocation housing, and inadequate programs to provide such housing;

The allocation of an ever-growing percentage of Federal urban renewal funds to nonresidential projects; and

The high proportion of residential urban renewal projects which clear slum and blighted area housing, and redevelop the cleared land with nonresidential or luxury residential land uses.

More fundamentally, even with sufficient funds and adequate relocation housing, clearance is not the correct method of eliminating substandard and other inadequate housing in the majority of cases. Most of the structures are sound and need not be demolished, even though the housing may be substandard in some respect. Primarily, clearance is wrong when it unnecessarily causes massive dislocation of families from accustomed neighborhood facilities, services, and institutions.

Similarly, urban renewal rehabilitation projects cannot proceed fast enough and on a large enough scale to bring families out of housing that is below minimum code standards in time to meet existing just grievances and to avoid further strife.

As a matter of national policy, the strict enforcement of minimum standard housing codes should now be recognized as the *primary instrument* for eliminating substandard housing in the United States.

Housing code administration should extend to demolition of structures for which rehabilitation to code standards is not feasible.

The Commission uses the term "primary instrument" to mean that a very large majority of the substandard dwelling units which are to be rehabilitated to code standards or demolished should be treated through strict application of the housing code.

The Declaration of National Housing Policy should be revised to reflect the vital role of *code enforcement* in upgrading substandard housing.



### *Improved housing code standards*

Whether a decent home—the goal set forth in the 1949 Housing Act—is one that merely meets the minimum standards of a housing code has never been definitely established either by Congress or by administrative regulation. The Federal record on this point is ambiguous.

The Department of HUD has indicated in administering some of its programs—e.g., relocation and various FHA activities—that the standard of “decency” can be met by conformance with local housing codes. On the other hand, some HUD programs are governed by policy positions suggesting that minimum code standards are insufficient. The most conspicuous example is the urban renewal rehabilitation program. A few years ago, Commissioner William Slayton said he would not approve any urban renewal rehabilitation project which proposed merely to bring housing up to code standards.

The officially defined objectives of urban renewal rehabilitation projects, as stated in the Urban Renewal Handbook, include “renewal of deteriorating areas to a long-term sound condition” (RHA 7210.1-1). This concept is repeated in a number of FHA materials. The minimum standard housing code does not pretend to employ the police power to force improvement of properties up to the point where they will represent long-term, sound, stable values which can be financed safely with long-term mortgages. Instead, the code sets minimum standards below which no individual or family should be required or permitted to live, regardless of whether the dwelling unit continues in existence for 50 years or 10 days. A dwelling unit which is standard today, according to the housing code, can fall below code standards tomorrow through abuse or lack of adequate sanitary maintenance.

A further example may be found in the completion requirements for urban renewal rehabilitation projects, which state that 75 percent of the retained units in the project area must be brought up to rehabilitation standards and 95 percent of the retained units in the project area must be brought up to the local housing code standards before the project can be closed out (RHA 7210.1-5). This reflects the higher level, greater expense, and greater difficulty of achieving rehabilitation standards as opposed to code standards.

On the other hand, the latest edition of the Rehabilitation Guide for Residential Properties (HUD PG-50, dated January 1968, which replaced FHA No. 950) sets forth standards which are intended to be used simultaneously as a guide for urban renewal rehabilitation and as a guide for judging the adequacy of the local

housing code. In addition, the FHA notice to insuring office directors transmitting the pre-publication copy of the guide (dated Jan. 8, 1968) states that the publication “sets forth guides for establishing minimum levels of rehabilitation work required to upgrade the existing residential properties to meet FHA requirements for mortgage insurance.” PG-50 thus represents an effort to bring minimum housing code standards, urban renewal rehabilitation standards, and FHA mortgage insurance standards for certain areas into very close conformance with one another, if not to make them identical. Without going into detail, it may be said that some of the standards in PG-50 are higher than accepted housing code standards, while some are lower. These variations may reflect an emphasis on marketing factors and a deemphasis on protection of the occupants’ health and safety.

### *An example of the gap*

An example illustrating why a standard contained in the minimum standard housing code might not be considered adequate to provide a decent home may be found in the requirements for the minimum habitable area of a dwelling unit.

As noted earlier, the ICBO housing code has low standards for larger families. Minimum habitable space is 200 square feet for two persons, and 330 square feet for four. In comparison, the standards published in September 1967, by the Housing Assistance Administration of HUD for the provision of housing for low-income families by the turnkey method set an allowable dwelling unit area of 550 square feet for two persons, and 720 square feet for four.

As a further comparison, the APHA figures quoted previously for “essential space requirements of a dwelling which, without extravagance, will make physical and emotional health possible” are 750 square feet for two persons and 1,150 square feet for four persons.

### *Neglect of code enforcement*

It is both appropriate and desirable to raise the minimum standards of housing codes from time to time as the condition of the housing stock improves and as social and economic standards rise. It is also a desirable goal to raise minimum standard housing requirements to a level which could truly be described as providing a decent home. The problem with the partial attempt to do this in PG-50 is that, as the minimum housing code standards are raised, there is an increasing tendency to view the housing code as an instrument *applicable only to fairly good neighborhoods*, and not to low-quality housing which, in economic terms, would be

more appropriately treated through urban renewal rehabilitation or through urban renewal clearance and redevelopment. This attitude stems from emphasis on the housing code as a tool to eliminate blight or prevent the further encroachment of blight, while forgetting its *primary role* of setting a minimum floor to protect health and safety of the occupants. Under the blight elimination approach, the poorer areas of the city are considered to need more drastic treatment than can be provided by code enforcement. Therefore, code enforcement is slackened, reduced to a complaint basis, or otherwise neglected in such areas.

#### *Federal policy dilemma*

Federal legislative support for downgrading code enforcement in areas where it cannot accomplish all the improvement needed appeared for the first time in the congressional language establishing the federally assisted concentrated code enforcement program.<sup>28</sup> Under this program, Federal assistance is limited to those areas in which code enforcement plus provision of the necessary public facilities will be sufficient "to arrest the decline of the area." Where other factors are present that will continue to cause the area to decline, Federal assistance for code enforcement is not available.

A second example of this line of thinking is contained in the new interim assistance program authorized by the 1968 Housing Act. This provides Federal assistance to remove the most serious hazards to health and safety in the poorest sections of cities, but contemplates no attempt at bringing them up to minimum code standards. Under these two Federal programs, one existing and one authorized, the basic concept of a housing code—that of providing a floor for living standards for all persons—is vitiated by the limitation of Federal aid to better quality areas or to merely partial elimination of code violations.

If the Federal Government offers financial aid for only partial code enforcement and withholds financial aid from full code enforcement, such action provides a powerful incentive for localities and States to do the same, thus abandoning equal protection of the laws and uniform application of the police power. While there may be economic validity to this approach, there is no legal or moral validity. Instances are now arising in which black residents of urban ghettos are demanding code enforcement to improve their housing conditions. The city has no right to withhold such enforcement.

This dilemma is related to the failure to distinguish between a decent home and a minimum standard home. *Every home in the city should be at least a minimum standard home at all times*, if housing code enforcement is fully effective. Code enforcement should not be delayed or abandoned on the theory that a more drastic type of treatment scheduled to arrive in the near or distant future (or perhaps never) will either demolish substandard homes or rehabilitate them to the level of decency.

A principal concern of the drafters of the interim assistance program<sup>29</sup> was that interim assistance should not be so effective that it would make the areas in which it was used ineligible for later urban renewal treatment. One of the criteria for eligibility of an area (other than an open land area) for urban renewal treatment is that it must contain a specified percentage (20 percent) of buildings having at least one "building deficiency," as defined in HUD regulations. If housing code enforcement were fully effective, some areas might no longer meet this eligibility criterion. Their ability to meet the other major criterion, "at least two environmental deficiencies," as defined in the same regulation, would probably remain unchanged. There is a tendency on the part of local public agencies responsible for urban renewal programs to oppose massive housing code enforcement that could impair urban renewal eligibility.

#### *Proposed strategy*

The Commission believes the Nation must recognize and proclaim an interim or emergency goal of bringing all occupied dwelling units up to minimum code standard, while simultaneously pursuing the separate and higher goal of the 1949 act, using means other than the present type of housing code, of raising code standard homes to the level of "decent homes in a suitable living environment." Such "other means" can certainly be used in conjunction with present code enforcement, but *code enforcement cannot legally or morally be delayed* until the other means are made available. Such other means would include both urban renewal and the new generation of housing codes discussed below.

For the purposes of such a program, a new set of standards or guidelines is needed, spelling out the requirements for a decent home and a suitable living environment.

An additional effort in the field of standards development is also required: preparation of minimum health and safety standards for the environment, to accompany current minimum health and safety housing codes.

<sup>28</sup> Section 117, Housing Act of 1949 as amended, added by Section 311(a) Housing and Urban Development Act of 1965, Public Law 89-117, approved August 10, 1965, 79 Stat. 451, 477.

<sup>29</sup> As reported by a former high official of the National Association of Housing and Redevelopment Officials.



As progress is made in reaching minimum health and safety standards for homes and residential neighborhoods, emphasis can gradually be shifted to reaching decent home standards and suitable living environment standards.

*Public assistance payments for substandard housing*<sup>30</sup>

While the provision of Federal aid to increase the construction and supply of decent housing for low-income individuals and families is the responsibility of the Department of Housing and Urban Development, the Social and Rehabilitation Service in the Department of Health, Education, and Welfare, with its widespread system of grants to States for public assistance and welfare services for the poor, administers the Federal portion of the *largest single housing assistance program in Government*. It has been estimated that between \$750 and \$850 million in Federal funds is used annually to pay for substandard housing. Those who must depend upon public assistance have a right to expect Government policies of financial aid and services that will help them improve their living conditions and move out of the slums, instead of consigning them permanently to substandard housing.

Public welfare is today a Federal-State partnership which reaches into more than 3,100 counties and political jurisdictions of the Nation to assure that individuals and families receive the recognized basic essentials of living within a framework of related governmental and voluntary measures. At the present time, the public welfare program is hobbled by its legislative mandate and the financial resources with which it must operate. Because of such limitations, only about a fourth of those persons considered to be "poor" are receiving financial assistance or services under the categorical system.

The States are responsible for determining *eligibility*, within specified categories of the needy—the aged, disabled, blind, and families with dependent children. The States also set the *items and levels* of assistance to be included in the relief check. The Federal Government matches the States' contributions in accordance with various provisions of the law.

Although information about the quality and costs of recipients' housing has not been systematically collected, it is clear that by and large the quality is poor and the cost excessive for value received. In many States, the amount of the recipients' money payment is not sufficient to meet living costs, nor does it include a shelter

allowance that is sufficient to meet the cost of standard shelter.

More than 8.6 million recipients of public aid in the categorical assistance programs—including more than 2 million of the aged—pay for shelter out of their monthly assistance checks. Though shelter is included as a basic item in each State assistance plan, only a few States have established housing standards or have, as yet, developed the funds and services or initiated community action to assure adequate shelter in return for rent paid or to increase the available supply of proper housing.

We have, as yet, only meager statistical information as to the detailed extent of housing need experienced by recipients of public assistance in the various States.

*Families with dependent children*

In 1961, a national study of characteristics of AFDC families showed 60 percent, or 716,400 families, living in substandard housing that was grossly overcrowded. This included rented and owned, rural and urban dwellings.

*Aged*

The extent of the housing problem of aged recipients was identified nationally for the first time in a 1965 mail questionnaire when 40 percent of them—about 800,000 persons—reported shelter that had one or more basic deficiencies. In the southern and rural areas of the United States, the range was 45 to 70 percent.

"Operation Medicare Alert," an outreach and information service sponsored by the Office of Economic Opportunity (OEO) and the National Council on Aging (NCOA) during 1966, revealed that many aged needed better housing arrangements and help in securing and maintaining safe living conditions; many needed home repair and home maintenance services; homemaker and home health services were needed to enable them to live independently with comfort and dignity in their own homes. These needs were repeatedly underscored in testimony before congressional committees in 1963 and 1964, leading to the inclusion of "suitable housing available at costs which older citizens can afford" in the objectives of the 1965 Older Americans Act.

*Required Federal action*

More than 5½ million, roughly 60 percent, of all welfare recipients live in rented houses, rooms, or apartments in the private supply.

From this figure, we conclude that housing improvement efforts should focus on upgrading the supply of privately owned rental housing to minimum code standards. Stronger efforts must also be made to educate communities to plan for and develop a greatly increased supply

<sup>30</sup> Material for this section was furnished to the Commission by the Social and Rehabilitation Service, Department of HEW (Mrs. Olive Swinney).

of standard rental housing for low-income families and individuals if overcrowding is to be reduced.

As of March 1967, 14 percent of AFDC families and 4 percent of the aged recipients, approximately 888,000 families, lived in public housing, which is often assumed to be standard housing.

The remaining 22 percent lived in their own homes, institutions, or the homes of relatives and friends.

When welfare recipients own their homes they should be assisted to maintain the dwellings in decent, safe, and sanitary condition and should be provided social services (if help is needed) in home management, budgeting, and upkeep. Financial assistance is provided in most States in lieu of rent to enable recipients to make mortgage payments on homes they own and occupy and to make minor repairs. Federal aid to States in meeting the cost of repairs to homes owned by recipients is provided for the first time in section 209 of the 1967 Amendments to the Social Security Act.

Failure of the Federal Government, in an area where it has considerable authority and responsibility, to take positive action to eliminate the substandard housing occupied by welfare recipients, by bringing it up to housing code standards or by removal and replacement, is one of the less constructive chapters of the national housing effort. Increasing awareness of the housing problems of its clients and of its own housing responsibilities has recently led the Department of HEW to support experimental and demonstration studies and programs and to alert the states to the need for action on their part.

While many improvements could be suggested, the Commission has limited its recommendations in this field to the most vital and difficult area; we believe that the fundamental welfare principle of full cash payment to the recipient to preserve his freedom of choice in expenditures should be relaxed just enough to stop, through a rent-escrow approach, the present Federal support of substandard housing.

#### *Emasculation of the workable program*

In the early 1950's, the U.S. Public Health Service had an active program in the area of housing hygiene. Public health personnel had cooperated with the American Public Health Association in the activities of the Committee on the Hygiene of Housing which resulted in, among other things, the 1952 APHA model housing code. The Public Health Service offered training in housing code inspections and enforcement, and provided technical assistance to communities with regard to preparation,

adoption, and administration of housing codes.

Continuation of the PHS housing program was opposed by the Housing and Home Finance Agency before the Bureau of the Budget on the general grounds that housing matters belonged under the Housing and Home Finance Agency. As a consequence of such representations, housing funds for the Public Health Service were gradually cut off by the Congress. This represented the beginning of the loss of certain vital concepts embedded in housing codes.

For a few short years, there was definite progress. In 1952, the first national model housing code (APHA) was published. In 1953, the President's Advisory Committee on Housing produced a memorable report<sup>31</sup> which became the basis for the Housing Act of 1954. It not only recognized the deep-seated value of housing codes but conceived the idea of a workable program for community improvement which would include the adoption of a set of codes, including the housing code, to help prevent the continued formation of slums and the continued growth of blight. The purpose was to hinge massive Federal aid for elimination of slums on cooperation by localities in acting to prevent future creation of new slums.

But the progress proved short lived, because priority was given within HHFA to getting concrete results with urban renewal projects. As one example, while HHFA had issued in 1950 a remarkably far-reaching document on the nature and contents of the comprehensive plan, prepared with the assistance of such expert planners as Harold Merrill, Carl Feiss, and others, the concept of the comprehensive plan was gradually whittled away until it ended up in the Urban Renewal Manual as a very short set of minimum required elements. The complexities and components necessary to a fully adequate plan were pruned off, in order to make preparation of the comprehensive plan (with which any proposed urban renewal plan had to agree) as rapid a process as possible, so that it would not delay urban renewal work.

Similarly, the requirement in the workable program for adoption and enforcement of a housing code was continually softened. First, a locality was permitted to promise that it would adopt the code in a year or two, after it had had adequate time to prepare public opinion to support the code. Then extensions were granted. Workable programs were recertified with-

<sup>31</sup> The President's Advisory Committee on Government Housing Policies and Programs, *A Report to the President of the United States: Recommendations on Government Housing Policies and Programs* (Washington, D.C.: Government Printing Office, 1953).



out the required adoption ever taking place. In other instances, after a code was finally adopted, little was done to enforce it. Sometimes there would be no housing code inspectors on the community's staff. Sometimes hundreds of inspections would be reported to HHFA with not a single case being taken to court. Local housing code administration was permitted to remain very weak.

The key problem was the fact that critical decisions on approving or denying certification or recertification of workable programs were not made by operating personnel at the program administration level. They were moved to the highest policy levels within HHFA, where other agency programs, and specifically progress in the urban renewal program, were given precedence over housing code adoption, administration, and enforcement. The workable program came to be known as a program of promises, rather than accomplishment, and the readily apparent existence of slums and blighted areas remains visible proof that housing codes were not being enforced.

As a result of this sequence of events within the Budget Bureau, PHS and HHFA, valuable public health concepts were bypassed, including (1) protection of the health and safety of the occupants of housing as the primary goal of housing code enforcement, and (2) application of the minimum standards of the housing code to *all* dwellings in a city. As more and more areas were designated for future urban renewal treatment, code enforcement in them was slackened or abandoned. What code enforcement existed was concentrated in the better areas of the cities. Code enforcement in the slums was postponed until urban renewal could take place, which frequently allowed bad housing to fester for years while awaiting urban renewal treatment.

After 13 years of having a workable program certified and recertified annually by the Department of HUD, San Francisco reported that 85 percent of the residential buildings which were inspected in a concentrated code enforcement area were found in violation of the housing code. Baltimore reported 70 percent after 13 years, Cincinnati 82 percent, Philadelphia 81 percent. Salem, Oregon reported 98 percent after 6 years of HUD certification and recertification. (See table 9.)

We do not suggest that this record was a cause of the urban riots of the late 1960's. But certainly it did nothing or very little to help prevent them. In fact, evidence adduced by the Comptroller General of the United States might lead a less cautious group to a much stronger conclusion. His January, 1968, report to the Congress entitled "More Effective Federal Ac-

tion Needed to Meet Urban Renewal Rehabilitation Objectives in Cleveland, Ohio" states:

A Special Grand Jury called into special session by the presiding Judge of the Common Pleas Criminal Court to establish the basic causes of the civil disorder which occurred in July 1966 in the general area of the University-Euclid Project No. 1 concluded that non-enforcement of the housing code was one of the inequities and practices which contributed as a feeding ground to the disorders.

In retrospect, it would seem that if the housing code element of the workable program had been assigned to the Public Health Service, as a part of its traditional functions of protecting and promoting the public health of *all* residents of the health agency jurisdiction, the job of providing adequate Federal support for local housing code administration might have been better done. There might have been greater recognition of housing as something far more than a real estate function. Housing code activities might have been made consonant with numerous other aspects of public health protection and environmental protection (which are day-to-day activities of many health agencies) in such functional areas as air pollution, water pollution, food protection, and the residential environment.

Just as there has been a growing realization over recent years that the workable program concept is really broader than the urban renewal program alone, and should be correlated with a number of housing and community development assistance programs, so this Commission's study of housing codes has revealed the need for correlating workable program approvals with satisfactory progress in achieving major housing objectives of the entire Federal Government, not of HUD alone.

#### *Suggested strategy*

Perhaps it is not too late to bring to bear the energies of the Federal agency responsible for health protection and sanitary maintenance on the problem of maintaining minimum standards of health and safety in existing housing.

One method of doing this might be for Congress to provide that the Secretary of HUD, in certifying and recertifying workable programs, should do so with respect to the housing code portion of the codes element of the workable program only with the concurrence of the Secretary of the Department of Health, Education, and Welfare.

Such a step would draw upon the capabilities of the two departments, HEW and HUD, to do what each can do best, the one to protect health, safety and welfare through housing code support, the other to build through new construction programs and to rehabilitate through urban renewal the basic housing structures of the country. It would give the nation the benefits which

flow from vigorous Federal support of the basic concept of using the local or state housing code to establish a floor of minimum standards for *every* dwelling unit in the country.

Such a remedy seems particularly appropriate in the light of material presented in the immediately preceding section indicating that the social and rehabilitation service in the Department of Health, Education, and Welfare is the largest source of the Government's housing assistance activity for the poor.

In the light of these considerations, Congress may decide that, as a matter of Governmentwide policy, workable program certifications with respect to requirements for housing code adoption and administration should be made a joint responsibility of the Secretaries of HEW and HUD.

### **Recommendations**

#### **Wider coverage**

#### **Recommendation No. 1—Establishment of a nationwide structure for housing codes**

##### **1(a) Adoption of statewide mandatory housing codes by all States**

**The Commission recommends that minimum standard housing code provisions be made applicable to all sections of the nation not now so covered through adoption of statewide mandatory housing codes in the several States**

The latest national survey which correlated housing codes with population, by the U. S. Public Health Service in 1964, showed that about 42 percent of the U. S. population was covered by minimum standard housing codes. Only 3 States, California, Hawaii and Massachusetts, had mandatory statewide housing codes. While the codes requirement of the HUD workable program has stimulated a rapid increase in the rate of adoption of local housing codes, continued reliance on housing code adoption almost exclusively by localities will not adequately serve the needs of national housing policy. Therefore State housing codes, while difficult to draft with the required sensitivity to variations in physical and social conditions between rural areas and small rural towns on the one hand and metropolitan areas on the other, are needed now. Added urgency has been created by the new authorization for Federal payments to welfare recipients for repair of owner-occupied houses.

##### **1(b) Federal aid to States for State and local housing code administration**

**The Commission recommends that Congress enact a new grant-in-aid program of housing code assistance to States which have adopted a statewide mandatory housing code, using a  $\frac{2}{3}$  Federal and  $\frac{1}{3}$  State sharing**

**formula, for (1) provision of technical assistance to local governments on the formulation of, and development of public support for, local housing codes; (2) conduct of State housing code inspection and enforcement activities; and (3) establishment of a roving State staff to aid localities in overcoming the backlog of initial inspections required after the adoption of a local housing code or required to implement the State housing code.**

**The Commission further recommends that authorization and funds for this program should be directed by the Congress to the Department of HEW reserving to the States the right to designate the State agency recipient of Federal aid.**

Experience has shown that, in general, State governments have been delinquent in providing financial and technical assistance to localities and other jurisdictions in their respective States for the purpose of urban assistance. Some States have recently shown a great awareness of urban and code enforcement, and has responded by strengthening State agencies responsible for such activities or, in the case where no such agency previously existed, have established agencies specifically for this purpose.

In these attempts, one critically deficient area is the lack of adequate coverage of the population by minimum housing standards; therefore, mandatory statewide housing codes have been proposed. In addition, however, in order to implement such statewide housing code programs, it is recognized that substantial funds will be needed to carry out the activities spelled out in 1, 2 and 3 above. In 1964, Congress recognized the problems that localities had in funding adequate housing code enforcement programs and took the first steps in providing grant-in-aid assistance for certain housing code activities similar to that available for urban renewal. Since 1964, subsequent provisions have substantially broadened the kind of Federal assistance for housing code enforcement available to localities. The 1968 Housing Act recognizes an even broader array of assistance to localities for housing code enforcement. A similar arsenal of assistance devices will be required and should be available to the States if they are expected to accelerate their activities in the area of housing code enforcement.

Federal housing code assistance to States should be administered by the Federal health agency because Department of HUD housing code assistance is limited to localities which apply for section 17 concentrated code enforcement program grants and which have an active workable program, while Federal, State and



local health agency responsibility for environmental health protection through effective administration of housing codes extends to all the people in all portions of each State regardless of whether localities request aid or not.

Pending the adoption of such a new program, the Commission feels that the Secretary of HUD should take aggressive action to advise State and local housing code administration agencies, housing agencies, and welfare agencies that, under current regulations, 701 funds may be used for developing a State housing code by adaption from national model housing codes, and for review by a State agency, pending adoption of a State housing code, of the adequacy of existing local housing codes.

The Commission is aware that a statewide housing code will raise the question of need for other statewide codes. The workable program concept of a comprehensive system of codes for a city is a good concept to apply at the State level. A new State housing code might, for example, require certain bath fixtures in every dwelling. In areas of the State with no building or plumbing code, the new fixtures might be improperly installed and create new health hazards through insanitary plumbing cross-connections with the water supply. Therefore, the State should establish its own goal of a comprehensive system of codes.

### **Improved administration**

#### **Recommendation No. 2—Housing code administration**

**The Commission recommends a wide range of actions to improve housing code administration at all levels of government.**

##### **(a) Goal and Guideline Formulation**

**The Commission recommends that the local housing code administration agency formulate a set of goals and guidelines for determining its functions and programs and request formal adoption by the local governing body.**

Housing code administration should be used to achieve the following major goals: protecting and maintaining minimum housing standards affecting personal health, safety, comfort, and amenity in all areas of the city; preventing blight from spreading to areas with standard quality housing; and upgrading basically sound and restorable "gray" areas.

Since housing code administration is an integral part of community development, goals for housing code administration should be formulated within the overall context of community goals.

Statements of principle are necessary as guidelines for determining appropriate code administration functions and programs. The following are suggested:

Codes should focus on people as well as structures.

They should emphasize services and incentives designed to encourage high standards of housing maintenance and voluntary rehabilitation rather than punitive enforcement.

They should lean heavily on techniques of prevention in recognition of their lower cost and more permanent benefits as compared with corrective and treatment techniques.

They should encourage and support efforts to increase the numbers of owner-occupants, including cooperatives and condominiums, since owner-occupancy stimulates continuing, high-quality maintenance of housing.

They should promote the development of a constituency of tenants, property owners and community groups.

They should evolve from and be subjected to continuing planning and evaluation.

They should complement, supplement and be closely coordinated with public and private activities designed to develop, improve and conserve the physical environment and human resources of a community.

They should be oriented toward entire neighborhoods rather than individual structures, and their operations should be decentralized and neighborhood-based.

They should incorporate activities and/or be allied with actions which generate clearly visible neighborhood improvements.

They should reflect adaptability to changing patterns of housing supply and demand for different groups of people and give consideration to the housing needs and choices of persons for whom government has become a special advocate.

##### **(b) Establishment of neighborhood improvement and housing services agency**

**The Commission recommends that each large city (or urban county, as appropriate) establish a neighborhood improvement and housing services agency, with responsibility for: (a) neighborhood improvement and housing rehabilitation; (b) housing inspection, code enforcement and related services; and (c) housing information. The neighborhood improvement and housing services agency should provide a full array of informational, counseling, technical advisory,**

inspectional, and enforcement housing services to owners and tenants and to public and private agencies and individuals responsible for the planning, development and maintenance of housing and neighborhood facilities. These services should be locally financed but should receive State and Federal grants for specified services as appropriate.

The recommended agency should have the following major responsibilities:

Joint planning and execution, in close cooperation with other planning, urban renewal and human resources agencies, of a systematic citywide program of neighborhood improvement and voluntary as well as mandatory housing rehabilitation, including the selective use of a variety of administrative aids and enforcement devices;

The provision of housing inspection, code enforcement and related services to public and private agencies and institutions engaged in residential development, renewal and housing activities, and the achievement of neighborhood improvement and housing maintenance goals;

The collection, analysis and dissemination of information on housing patterns, conditions and trends, through regular and special surveys and inspections, conducted in close cooperation with other planning and renewal agencies.

The establishment of the agency, to be accomplished usually by elevating and enlarging the existing housing code enforcement activity, would recognize the larger role of government in seeking decent housing in livable neighborhoods for all citizens, and would provide for integration of the various services the public now expects from government in relation to housing. It would allow for the combination of neighborhood improvement with code enforcement to assist in permanent upgrading of a neighborhood.

The essence of the concept behind this agency is to change from a police operation of housing code enforcement to a service operation of housing code administration.

Also, and most importantly, this agency would be a long-range permanent arm of the local government, committed to maintaining good housing conditions permanently. It would differ from the local public agency empowered to carry out urban renewal projects, which is usually not a part of the city government, and which has a temporary function to catch up with and undo past mistakes.

### **(c) Establishment of citywide program of neighborhood improvement and housing maintenance**

The Commission recommends as a major program strategy (whether or not the

agency recommended above has yet been created) the establishment by localities of a systematic, citywide program of neighborhood improvement and housing maintenance (including code compliance through intensive administration backed up by vigorous enforcement) tied closely to an overall cooperative effort to improve the city's physical and human resources.

The Commission recognizes that in areas where the direct result of enforcing code provisions might be to put the residents out on the curb, the regulations today are often not, in fact, enforced. Administrative or judicial evasion is employed, instead, to effect a tacit relaxation of the code; to relieve the pressure on the Federal agencies, State governments, the city administration, the building industry, and the construction trades to create low-cost dwellings; and thus, to continue the existence of substandard housing.

The Commission is convinced that this situation should be reversed. The present arrangement represents a considerable saving of energy and money at the expense of the poor and the other ill-housed. Housing codes should be enforced and the pressure should be put, instead, where it belongs—on those with the capacity to develop the means of housing low- and moderate-income people. The Commission realizes that success is greatly dependent on carrying out the recommendation for construction of at least 500,000 units a year of low-income housing. It is also dependent upon an increase of 50 percent in the total housing produced, from the present level of less than 1.5 million a year to a level of about 2.25 million units a year.

At the State and local levels, the use of mobile homes which can meet housing code standards, new jurisdictional approaches to land use, imaginative techniques by local housing agencies, increased rent contributions by welfare agencies to permit the low-income resident to bargain more fruitfully in the private market, amendment of building codes and revision of union regulations to enable new kinds of construction, provision of low-interest loans to enable owners to repair buildings—are all examples of action. All are preferable to the present legal and bureaucratic miasma where each agency excuses its inaction by the inaction of the others.

In the most dilapidated areas with the worst housing conditions, the program of neighborhood improvement and housing maintenance should take the form of a guarantee of at least minimum housing standards until more comprehensive treatment can be applied. Since such a program is essential to all areas, it would



never be used as a permanent substitute for, or alternative to, urban renewal.

In these dilapidated areas, special Federal interim financial assistance should be available to help communities alleviate the worst housing and environmental conditions until more complete relief arrives through full systematic code enforcement or other more intensive treatment. Such interim assistance should be available throughout the locality.

For residential areas which are basically sound but which are declining, including those areas sometimes designated as "gray" areas, neighborhood improvement with *voluntary* housing rehabilitation on a systematic, block-by-block basis in conjunction with other city services should be used as the major tool.

It is understood that the police power, exercised through housing and related codes, would be invoked as a last resort should the voluntary effort prove inadequate.

In areas not now eligible for Federal code enforcement assistance, the major goal of neighborhood improvement should be the prevention of deterioration and the maintenance of existing high-level environmental and housing conditions. The Commission recommends, however, that Federal code enforcement assistance be extended to all areas of a locality.

The Commission believes that each systematic, comprehensive program should follow the pattern presented for the neighborhood improvement and housing services agency.

#### **(d) Wide variety of code enforcement sanctions and remedies**

The Commission recommends that State and local governments should: (1) Enhance the effectiveness of their enforcement effort by adopting a broad variety of newer sanctions and remedies, shifting from criminal prosecutions alone to an emphasis on the use of a variety of newer civil procedures, such as a shift of emphasis to include the use of civil penalties, the use of equitable remedies, such as injunctions and receiverships, the use of municipal repair remedies with recovery of cost through the imposition of liens, and, where warranted by the volume of cases, the establishment of a civil housing court; (2) strengthen the legal remedies presently used, by the establishment of housing courts where warranted and by improving the application of the criminal process through use of presentencing investigations, suspended sentences or sentences of probation, so as to accomplish correction of conditions through the use of that process to the extent possible.

Although many varied code enforcement sanctions and remedies have been devised and

enacted in the country as a whole, there are very few States or municipalities that can claim to have available a full range of legal enforcement methods. The standard legal method of code enforcement is still the misdemeanor prosecution, and all too often it is the only method authorized or used.

The inadequacies of this method to deal with code violations have been frequently demonstrated and commented on. Newer and more effective code enforcement remedies have all been on the civil side. Experience has shown that different remedies and sanctions are effective in different problem situations. At present, however, only a few jurisdictions are authorized to use injunctions in housing cases, and only six States authorize the receivership remedy. Only a handful of jurisdictions have effective municipal repair remedies, and even fewer have adopted remedies that tenants themselves may use to bring about compliance. There is no good reason why States and municipalities should not equip themselves with a full range of enforcement devices.

The variety of the new remedies, and their effective employment, with emphasis on the problem building, rather than its owner, strongly point to the need for a new kind of tribunal to deal with all of the building's problems in a coherent manner through consolidated housing jurisdiction, rather than in a piecemeal manner, with different actions scattered in different courts and tribunals. Where warranted by the volume of cases, the need for a court that can render a kind of social service, in addition to adjudicating cases, is apparent if emphasis is placed on repair of the building, and not on punishment of the owner.

All actions and proceedings relating to a single-dwelling house—whether brought by the municipality or by the tenants—could be disposed of in one consolidated proceeding, before a single judge empowered to utilize any authorized remedy or sanction, whether legal or equitable, that might be called for. Such a civil housing court of consolidated jurisdiction could be authorized to retain jurisdiction of the parties and of the building until all violations are corrected and unlikely to recur. The court could also be equipped to make available to owners necessary advice on repair and rehabilitation and the financing thereof, and to tenants, necessary help on decent housekeeping practices.

While emphasis should be placed on the civil process, the States that continue to use the criminal process should improve it and use it imaginatively, so that it, too, may become an instrument for the correction and improvement of housing conditions. The imaginative use of

sentencing devices could lead to the correction of violations by such methods as making continued maintenance and repair a condition of a probationary sentence. The establishment of housing courts, even on the criminal side, is likely to lead to greater consistency of procedure and sentencing practice, and to a better appreciation on the part of the court of the seriousness of housing offenses through experience gained by continuous exposure. The use of existing criminal remedies can also be improved administratively.

Communication between the administrative agency charged with housing code enforcement and the jurisdiction's legal office, which must prosecute charges of violations, has all too often been deficient. Prosecutors are often presented with only the fact that code violations presently exist. Information about past efforts by the code agency to bring about compliance may be wholly lacking. Since courts, in their consideration of housing code charges, are generally concerned with the history of the particular property and with prior notifications and attempts to enforce the code, prosecutors find that they are unprepared to argue their cases effectively.

The Commission therefore recommends that the administrative provisions of all housing codes should insure that, when a code violation case reaches the jurisdiction's legal office for prosecution, full information on prior administrative efforts to achieve compliance be received (and used) by the legal office.

#### **(e) Reforms in the law of landlord and tenant**

The Commission recommends that State legislatures should undertake substantial reforms in the law of landlord and tenant, so that leases of dwelling space have the characteristics of ordinary contracts, with the tenant's covenant to pay rent dependent on the landlord's covenant to make repairs. The standards and requirements of applicable housing codes, including the landlord's duty to repair and maintain, should, by legal implication, become terms of the lease agreement, and any lease provision exculpating the landlord from meeting code requirements or repair obligations should be void as contrary to public policy (except in specified instances where the tenant clearly assumes ownership obligations).

In the meantime, so-called tenant "rent-strike" remedies should be provided and strengthened, so as to enable the tenant to assert the protections to which he is entitled under the housing code.

Tenants should be protected against retaliatory evictions and rent increases.

There is considerable agreement that tenants should be afforded adequate remedies so as to enforce the obligations of landlords to maintain and repair the leased housing accommodation. The fullest measure of protection would be made available to tenants if the doctrine of independent lease covenants were abolished, so that a tenant could refuse to pay rent if the landlord failed to meet his obligation to repair, particularly if, as is here proposed, the requirements of the housing code were to become implicit terms of the lease agreement. If the States are unwilling to go this far in reversing established common law doctrines, they should, at least, adopt strong "rent strike" remedies, thus far enacted in only a few jurisdictions, so that a tenant may use the landlord's failure to comply with code standards as a ground for rent withholding, with rents withheld available for the making of repairs. In any event, tenants should be protected—as they are at present in only three or four jurisdictions—against evictions or rent increases in retaliation for complaining to a code enforcement agency.

Although tenant actions cannot be relied on as major code enforcement devices, but merely as remedies in aid of municipal code enforcement, they are important to alleviate real tenant grievances and frustrations. While the major code enforcement effort is a municipal task that cannot be delegated or shirked by reliance on tenant remedies, the tenants must be afforded the opportunity to seek direct redress for the discomfort, and the hazards to life and health that noxious, unlawful and substandard housing conditions impose on them.

#### **(f) Right of entry for housing inspections**

The Commission recommends that the States should promptly amend the laws and rules of court that deal with the issuance of search warrants, in order that there may be proper authority for the issuance of warrants for housing inspections, in compliance with recent pronouncements of the Supreme Court regarding right of entry.

As a result of the decisions of the Supreme Court in the *Camara* and *See* cases in 1967, it has become clear that henceforth an inspector will require an inspection warrant when access has been refused (except in specified emergency cases). Existing search warrant procedures in the overwhelming majority of States are not designed to authorize the issuance of the new kind of warrant called for by the recent cases. Although a number of jurisdictions may have adopted informal arrangements for the issuance of inspection warrants, it is possible that warrants issued under these arrangements may meet the constitutional requirements but be defective



nonetheless because they fail to meet *State* requirements. In view of the fact that the entire code enforcement effort is based on inspection of homes, accomplished both validly and without delay, it is essential that inspection powers be legally unassailable.

**(g) State and local repair and receivership programs**

**The Commission recommends changes in Federal and State laws and regulations to make possible needed Federal support for State and local repair and receivership programs.**

Municipal repair and receivership remedies are among the most direct and effective remedies to bring about correction of adverse conditions in deteriorated, though salvageable, dwellings. These devices have been used in only a few jurisdictions, and have been abandoned in some in spite of considerable successes, because of the difficulty of recovering the cost of repairs or rehabilitation. Whether or not fully recoverable, the means for making repairs must be provided to keep in usable condition the substantial portion of the housing inventory for which repair and receivership remedies have been devised. In many instances, the municipality, and in the case of receivership, the municipality or the private receiver, obtains a prior lien on the property as security for the cost of repair. Frequently, however, substantial and costly repairs are required to bring buildings back into code compliance, and the municipal outlay may be substantial, and the length of time needed to repay the cost of repairs out of rents may be quite considerable. Where private receivers have been appointed, they have encountered difficulty in borrowing money and have had to stage the making of repairs with the availability of funds from slow rent receipts. This has often slowed the process of rehabilitation and rendered it more costly in the long run. Federal support is necessary to encourage the states and municipalities to use or adopt effective repair and receivership remedies by assuring them that either public or private funds would be available when needed, regardless of the length of time necessary for repayment.

A variety of methods of Federal support, to be used alternatively or in combination, is suggested. Such Federal support could consist of (a) direct subsidies or loans to municipalities with repair or receivership functions; or (b) the establishment of a Federal rehabilitation corporation with power to issue bonds and to make loans to municipal or private repairers or receivers; or (c) the establishment of a sys-

tem of Federal guarantees of loans by private lending institutions to municipalities having receivership or repair programs or to municipal or private receivers. Another method of Federal support that should be considered is authority for FHA insurance of receivership and repair liens (and of receiver certificates) as first mortgages, by appropriate state legislation to recognize such priority liens as first mortgages and by appropriate changes in FHA regulations.

**(h) Establishment of health education and community relations programs**

**The Commission recommends that community relations programs in connection with housing code enforcement be carried out on a sustained basis, that Congress amend the Housing Act to make such efforts mandatory when Federal aid is involved, and that as part of such programs the Federal and State Governments cooperate in the training and utilization of subprofessional health educator aides to provide tenant and neighborhood education in the course of actual assistance with housekeeping chores in slum neighborhoods, as a realistic alternative to fruitless tenant prosecutions for housing violations.**

If anything has been learned in the past 25 years in housing code enforcement, it is that no such program can be successful without a full-fledged community relations program as an integral part of the housing code effort.

Voluntary compliance with the codes program on the part of property owners and tenants is essential to the success of any such effort. Failure to fully inform those affected by a housing code program can result in lack of cooperation, with consequent substantial delays in the program, and can throw the whole program into doubt.

Experience has shown the futility of prosecution of tenants as a code enforcement device. As an alternative, a real effort at changing housekeeping habits and attitudes should be undertaken, using trained subprofessional and indigenous personnel. In addition to improvement of housing conditions, the recommendation should also create new job opportunities.

**(i) Wider Applicability of Federal Aids for Rehabilitation**

**The Commission recommends that the eligibility requirement for rehabilitation loans and grants under section 312 and 115 be amended to provide eligibility for those people who are under the definition of the "near-poor" or below, as used by the Social Security Administration, in all sections of any locality.**

The present section 312 rehabilitation loan program and section 115 rehabilitation grant program are available in urban renewal and concentrated code enforcement areas. Both programs are used to finance repairs made to comply with local codes or, in the case of title I urban renewal, rehabilitation standards, which in the past have generally been higher than local codes. This situation results in a highly inequitable policy whereby certain citizens, because of the areas in which they live, are given the advantage of loan and grant assistance to meet code requirements when, on the other hand, those who live outside such areas and are required to meet the same standards are denied the opportunity to benefit from loans and grants. This contention has been substantially supported in the field. Even during the limited experience of loans and grants (secs. 312 and 115), localities across the country have reported severe criticism from citizens outside designated project areas who wished to make code repairs but are prevented from availing themselves of loan and grant assistance. It is only logical that if the Federal Government follows a policy of assisting less affluent renters and owners to meet codes and rehabilitation standards in officially designated project areas, it ought to provide the same assistance to meet at least minimum housing code standards in all areas.

### Federal policy

#### Recommendation No. 3—Acceptance of housing codes in Federal policy

The Commission recommends that a wide range of existing Federal policies and activities impinging on housing code administration be specifically modified, and that new policies and activities be established to recognize and support the basic concept of housing codes; namely, that they establish minimum acceptable standards for every dwelling.

##### (a) Definition of "substandard housing"

The Commission proposes that the term "substandard housing" be used henceforth to mean any dwelling unit in which there is substantial departure from accepted minimum standard housing code provisions, as such provisions have been upheld by the courts including the Supreme Court of the United States,<sup>32</sup> and recommends that all branches of all levels of government, particularly the executive branch of the Fed-

eral Government, and most particularly the Department of Housing and Urban Development and the Bureau of the Census, use this meaning in their programs, reports and other activities.

Local housing code enforcement agencies recognize that substandard housing is that which falls substantially below minimum conditions permitted under the local housing code. The Department of Housing and Urban Development, however, has officially used varying criteria from program to program to identify substandard housing, and in every case has excluded from the definition housing which is substandard according to code because of inadequate light and ventilation, floor space, ceiling height, use of lavatory wash basin for preparing food and washing dishes and kitchen utensils, or many similar inadequacies.

The first and most important step in developing adequate Federal Government support for the basic concept of housing codes is to establish a clear and firm relationship between the "minimum standard" established by a housing code and "substandard" as used in the phrase "substandard housing." On the face of it, whenever one sets a minimum standard, anything falling below that standard is *ipso facto* substandard. But, as has been shown in the preceding text and in the research study on housing code standards, there is now a gap between the level of quality described as minimum code standard and the level of quality described as substandard. This gap must be closed. If it is not closed, there will be misunderstanding, antagonisms, and fuel to feed the flames of future riots. If we continue to talk about the elimination of substandard housing and mean or intend that the large poor families in the central city ghettos still will not receive the protection promised by the local housing code, we can expect more trouble in the cities. In the present situation, if and when public and private efforts have eliminated all substandard housing (using the current HUD definition), there will still be millions of dwelling units below housing code standards.

The adoption of minimum standard housing codes by some 4,900 municipalities and counties in the United States, with an estimated 2,900 or so of these accepted under HUD's workable program, has by now laid a firm national basis for using the concept of departure from code. A few years ago, such a step would not have been so feasible. In the future, when many States will have adopted statewide housing codes, the recommended definition will be even

<sup>32</sup> See National Association of Housing and Redevelopment Officials, *The Constitutionality of Housing Codes*. 2nd ed., December 1964.



more suitable as a basic standard for measuring the quality of housing.<sup>33</sup>

### (b) Recognition in national housing policy

The Commission recommends that the congressional declaration of national housing policy contained in section 2 of the Housing Act of 1949 explicitly recognize, among other factors, the enforcement of minimum standard housing codes as the means of accomplishing a large proportion of "the elimination of substandard and other inadequate housing" which is required by "the general welfare and security of the Nation and the health and living standards of its people."

Using the definition of substandard housing proposed by this Commission, and considering the data reported in table 9 relative to percent of recently inspected building found in violation of the housing code (35 to 98 percent), it is apparent that clearance as a method for eliminating substandard housing does not have a funding base nor the economic and social justifications necessary for it to be considered the one and only tool for the purpose. The vast majority of substandard dwelling units should be returned to standard and maintained at standard levels through housing code enforcement. This fact should be recognized in the National Housing Policy.

### (c) Survey of housing quality

The Commission recommends that the Secretary of Commerce initiate within the Bureau of the Census a periodic survey of housing quality throughout the United States as measured by conformance with acceptable state or local minimum standard housing codes using data supplied and personnel employed by local and State housing code administration agencies as may be feasible under local conditions, supplemented as necessary by direct census data.

<sup>33</sup> The Commission recognizes that its proposed definition for substandard housing contains one area requiring further clarification, namely, the phrase "substantial departure from accepted minimum standard housing code provisions." The words "substantial departure" are inserted to reflect the fact that violations of the housing code may differ widely in degree of severity. Although each minor violation may subject the owner or occupant to liability for a criminal penalty in response to a violation of the housing code, it is considered appropriate to withhold the categorization of substandard from a dwelling unit until there has been at least some small accumulation of minor violations of code provisions. This approach is based on many years of experience in the public health field in the administration of the sanitary codes, and has been used in local housing code administration as well. An early example is the American Public Health Association appraisal technique for measuring quality of housing, under which penalty points were assigned for various housing deficiencies and a small accumulation of penalty points was permitted even within the category of dwelling units which were labeled sound. Pittsburgh and Philadelphia are using such systems today. A similar system should be applicable in working out "substantial departure" from housing code provisions. The details of how "substantial departure" should be measured can be defined by model code writing groups or the National Institute for Development Standards, drawing heavily upon public health experience.

If we were to start tomorrow to use a definition of substandard housing similar to that proposed by this Commission in recommendation 3(a), no one would have any realistic conception of the actual quality of substandard housing in the United States. The magnitude has never been accurately measured.<sup>34</sup> No one can judge the size of the need so long as no data are collected on a basis that would give a true reflection of the need. Need can best be expressed in terms of failure to conform to the minimum standards of an accepted local housing code.

As a reflection of what the national statistics might show, the Washington Planning and Housing Association reported in January 1968 that in the District of Columbia during 1965-66 115,913 dwelling units were inspected, of which 114,060 were found to be not in compliance with the local housing code. In addition, 10,425 cases of noncompliance from the previous year had not been corrected, so that a total of 124,485 dwelling units required action. This figure compares with a total number of housing units as recorded in the 1960 Census of Housing of 262,641. Close to 50 percent of the dwelling units in the District of Columbia were substandard in 1965-66, using the Commission's definition of substandard, whereas the 1960 U.S. Census of Housing, using a very liberal classification of categories, reported that only about 20 percent of the units were substandard.

It is essential, therefore, that new measuring efforts be undertaken to determine the quantity of substandard housing subject to improvement through housing codes in the United States. It is only logical that such a new effort should be undertaken by the U.S. Bureau of the Census, the Nation's principal data-gathering agency in the field of housing. This effort should not displace the present census of housing, which needs to be continued for a multitude of purposes, only one of which is the continued provision of data which will be comparable with those of previous censuses. The Bureau of the Census should serve as a central repository and stimulator of data-collecting action by local and state housing code enforcement agencies.

Furthermore, since the census survey would only occur every 5 years, the Commission believes that the Secretary of HUD, in making his annual report to Congress on the Nation's housing needs, should include figures on the estimated number of substandard units in the Nation using the definition recommended by the Commission.

<sup>34</sup> The Commission made an effort to estimate the cost of removing all housing code violations in the U.S. Development of such an estimate requires making numerous assumptions, including some regarding the number of dwelling units below code standard. See *supra*, Note 1, Barresi, Chapter IX.

**(d) Vendor payments for public assistance rental shelter allowances to assure use of standard housing**

The Commission recommends that Congress amend the public assistance titles of the Social Security Act to authorize flexible Federal financial participation in State vendor payments for the rental shelter allowance to public assistance recipients for whom a determination is made by the State welfare agency, based upon certification by the State or local housing code agency, that the rental dwelling unit exhibits a substantial departure from accepted minimum housing code provisions, and to further authorize State welfare agencies to divert payment for such substandard housing into escrow from which the removal of housing code violations would be funded.

One of the major examples of the Federal Government's lack of support for full enforcement of housing codes is its continued practice of participating in State payments to welfare recipients for the rental of substandard housing, in effect making Uncle Sam the equivalent of a slum landlord. This has resulted from the basic premise that the welfare recipient should have complete control of his own money except in certain specialized cases of vendor payments for a particular kind of service or protective payments for recipients who have been certified as incapable of handling their own funds.

It is now time to recognize that the damage to the health and safety of the welfare recipient, and to the general well-being of the community, is a more serious social evil than removing from the welfare recipient his free choice in the selection of housing. In the majority of cases, there is no such free choice because the shelter allowance is so pitifully small that the recipient cannot purchase standard housing. In these circumstances, the Federal Government should do everything to insure that standard housing is provided. By authorizing vendor payments when the shelter allowance is used to obtain rental quarters, the Federal Government can give the State welfare agency a powerful tool to guide the welfare recipient into standard housing.

By further authorizing the States to divert the vendor payment into an escrow account to be used for removing housing code violations, the Federal Government can also contribute to the elimination of substandard conditions in much housing occupied by welfare recipients. Legitimate property owners who are willing to undergo necessary repairs must have funds available to do the required work. Under this recom-

mendation, repairs and services satisfactory to the tenant, code enforcement agency and welfare agency alike could be made.

The Commission is convinced that the present system is unrealistic. The recipient is in the same hopeless bargaining position that an individual employee of a giant corporation was in prior to the advent of collective bargaining. The Commission believes that the foregoing recommendation will result in considerably better housing for welfare recipients.

Flexible Federal financial participation in State payments for shelter allowance is also recommended for other low-income homeowners and renters who must pay more than 25 percent of their income for minimum standard shelter, whether they are currently receiving public assistance or not.

Additional reforms can be instituted by the Secretary of HEW without congressional approval. Section 209 of the Social Security Amendments of 1967 authorized Federal payments, up to \$250, for repairs to homes owned by welfare recipients. The Secretary of HEW should require that existing and future State housing codes be included in State welfare plans to qualify for section 209 assistance.

Congress may also wish to provide, through amendment of section 101c of the Housing Act of 1954 as amended, that certification and recertification of the housing code portion of workable programs for community improvement submitted by localities be a joint responsibility of the Secretaries of the Departments of HUD and HEW.

**(e) Changes in administrative practices and regulations**

The Commission recommends that major adjustments be made in present administrative regulations by appropriate Federal agencies to assure the effectiveness of local housing codes. Such steps should include:

(1) Action by the Secretary of HUD to require that housing codes, in meeting the workable program requirements, contain a range of sanctions and remedies.

(2) Revision of the criteria for urban renewal area eligibility to eliminate, for residential buildings, the requirement that at least 20 percent of the buildings in the area must contain one or more building deficiencies.

(3) A clear indication that the category of persons eligible for the rent supplement program includes persons occupying housing which is substandard according to the definition proposed by this Commission.



**(4) A new requirement that the procedures of both the workable program and the community renewal programs specify that all areas of a community receive systematic housing code enforcement at all times.**

Many existing Federal programs can, without any further congressional action, serve to recognize and support the concept and effectiveness of housing codes.

(1) For example, although the requirement of a workable program has spurred an increase in the number of municipalities with housing codes in a dozen years from 56 to more than 4,900, the actual enforcement of these codes has not kept pace with their number. The Federal workable program requirement has failed to concern itself sufficiently with legal remedies, legal procedures and enforcement techniques. The program could encourage a wide range of techniques including civil penalties, vacate and repair orders, injunctions and receiverships.

(2) A further example of a Federal program which not only fails to support but actually encourages less than full enforcement is the HUD criteria<sup>35</sup> that, for an area to qualify for urban renewal assistance, at least 20 percent of the buildings in the area must contain one or more building deficiencies. It should be possible for all residential buildings in a proposed urban renewal area to be of minimum standard housing code quality without destroying eligibility for urban renewal, so that residents could be afforded housing code protection while waiting for urban renewal.

The present requirement represents a lack of support of the basic concept of housing codes that all dwellings be maintained at minimum standard levels. Failure to bring dwellings up to a minimum code standard because they are waiting for more drastic and more permanent urban renewal treatment dooms the resident to live in substandard conditions until the project is carried out. The purpose of urban renewal residential re-use projects should be to create "decent homes in a suitable living environment" without delaying improvement of all substandard houses to minimum housing code standards.

(3) As detailed in the Commission's study of housing code standards, the rent supplement program uses an indefensibly restrictive definition of substandard housing in administering a statute which prescribes that low-income persons occupying substandard housing constitute one group of those eligible for rent supplement.

(4) Neither the neighborhood analyses in the workable program nor the community renewal program should be permitted to recommend

that some neighborhoods receive systematic code enforcement, others receive concentrated code enforcement, and others receive urban renewal treatment. All neighborhoods should receive at least systematic code enforcement. Those with heavier problems should receive other treatment in addition.

There are many other Federal programs that by administrative action can support the concept of codes. An important step would be an unequivocal official policy statement in the new HUD Urban Renewal Handbook (not merely in an advisory guide which may be ignored) that relocation housing must meet all requirements of an acceptable local housing code.

**(f) Federal aid for citywide code enforcement**

**The Commission recommends that the Congress establish a new program of Federal financial assistance to localities to support citywide housing code enforcement programs.**

The present section 117 concentrated code enforcement program is limited to those sections of the city in which housing code enforcement together with the required local community facilities to be provided is expected to be sufficient to "arrest the decline of the area." Other areas of the city with housing of poorer quality are not eligible for the program. This limitation represents another example of Federal failure to accept the basic premise that the standards in a code apply to all dwellings in the city. The present program, in saving some sections of the city for more drastic urban renewal treatment, results (because of inaction) in a denial to the residents of those sections of their legal rights to the protection intended to be afforded by the local housing code.

The Commission's recommendation for a new Federal assistance program to support citywide housing code enforcement, if enacted, would establish the balanced approach necessary. We now provide assistance to localities for urban renewal and model cities activities that are mainly remedial, in that they are aimed at correcting conditions that have arisen through neglect. We also provide localities with additional assistance either to construct or rehabilitate housing units for low- and moderate-income families and individuals. Most recently, Federal assistance has been provided for housing code enforcement activities in urban renewal areas and in concentrated code enforcement areas. However, in order for a locality to operate an effective housing code enforcement program to protect its good housing, to upgrade its deteriorating housing, and at least to hold the line on its blighted housing, it is necessary for

<sup>35</sup> HUD Urban Renewal Handbook, RHA 7205.1, 2/68, p. 1.

the local code enforcement agency to be able to operate programs simultaneously for each of the above-mentioned activities.

**(g) Interim assistance program**

**The Commission recommends that the interim assistance program established under the Housing Act of 1968 be broadened to apply to all sections of the locality.**

The interim assistance program is directed toward the elimination of the most serious hazards to health and safety, but only in those areas planned for early treatment under urban renewal or concentrated code enforcement. This represents another instance of failure on the part of the Federal Government to recognize and support the concept that housing code provisions apply to all dwellings. If a special program is needed to eliminate the most serious hazards prior to the time that normal systematic code enforcement attacks all housing code violations, such a program should be made available to all areas of the city and not merely to those scheduled for early treatment with renewal or concentrated code enforcement. Persons subjected to serious hazards in other sections of the city are just as worthy of the protection intended to be furnished by the housing code as are those persons living in areas slated for early treatment by other programs.

**Higher standards**

**Recommendation No. 4—Development of higher standards**

**(a) Coordination and improvement of existing housing codes**

**The Commission recommends that a major effort, adequately funded by the Federal Government, be initiated immediately to coordinate, upgrade, and improve the existing model housing codes (which are aimed primarily at minimum standards of health and safety) on the basis of both objective knowledge applicable to substantive standards and the potentialities for improved administrative procedures and legal remedies suggested in studies of this Commission. Following this, intensive efforts by all concerned should be devoted to stimulating quick but considered adoption by localities and States of the revised model code provision.<sup>36</sup>**

If the recommended improvements in housing code administration were carried out even with

no change in the existing housing code standards, a quantum jump in the improvement of the housing inventory of the country would result. This would represent a very major victory in the war on urban problems. It is the first order of business.

If the coverage of housing codes (coupled with the effective administration of the codes) was extended to all of the U.S. population instead of the 42 percent reported in 1964, this would also result in a rapid improvement of the housing inventory. It would affect not only the remaining larger cities now without housing codes but many small cities, towns, and rural populations as well. This would be done through regional or State action. This is the second order of business.

Thus, we could make great progress even if housing code standards remained at their present inadequate minimum level. Yet the Nation would still be, after 20 or 25 years, far, far away from the national goal of a decent home and a suitable living environment for every American family.

A range of weaknesses in present housing code standards, such as standards below a minimum level of health and safety, administrative procedures which lack a desirable variety of compliance techniques, and legal tools which are less than effective, has been pointed out. The APHA and the Public Health Service have an effort underway at this very time to remedy some weaknesses. However, it is limited to improvement of the old APHA model code alone, and involves practically no change in the 1952 substantive standards. Long-range research funded by the Public Health Service is underway to improve substantive standards and develop a firmer health basis for them.

The APHA-PHS model code revision of 1967-68 is primarily a volunteer effort by a 10-man subcommittee of the Program Area Committee on Housing and Health of the American Public Health Association. The depth of committee effort and the funding of committee activities have been inadequate to permit the correction of all the weaknesses noted by this Commission.

A more solidly funded attack on present code weaknesses is needed. The efforts of this Commission have provided a start, most noticeably in the research studies on administration and legal remedies. Research to refine and support minimum health standards as well as greater coordination of standards set forth in model codes is needed. This can be accomplished through joint activities of the code-drafting organizations.

<sup>36</sup> This recommendation should be read in conjunction with the first recommendations in both chapter 3 and chapter 5. Together they propose the establishment of a Council for Development Standards in the National Academy of Sciences—National Academy of Engineering to be composed of two institutes—a National Institute for Building Sciences and a National Institute for Environmental Sciences.



For all the reasons cited, a major effort is needed to coordinate and improve the existing model codes, and to persuade States and localities to use substantive and administrative standards in their codes equivalent to those of the improved model codes.

Standards development should be the responsibility of an interdisciplinary group, with strong representation from the fields of health, safety, structural maintenance, and neighborhood conservation. Within the Government the new Federal Interdepartmental Health Council should also be involved.

This recommendation should be carried out quickly. Major weaknesses in the model housing codes, such as lack of full applicability to existing dwellings and low substantive and administrative standards, have already been pointed out. The present HUD policies of indiscriminate acceptance of existing national model housing codes, and of favoring a locality which adopts a national model without change, are perpetuating on a wide geographic basis the deficiencies of the current model codes.

**(b) A new generation of model, State, and local housing codes**

The Commission recommends that the National Institute of Environmental Sciences<sup>36</sup> initiate the development of a new generation of model housing codes using a common set of standards based on the specific national objective of achieving a decent home for every American family, and that States and localities adopt and implement at the earliest possible time State and local housing codes based on these models.

Existing housing codes are directed primarily toward minimum standards of health and safety with perhaps a few provisions related primarily to general welfare. The Commission is convinced that they are completely inadequate to play their proper role in achieving the Nation's housing goals.

The real need is for nothing short of a new generation of housing codes directed specifically at establishing standards for a decent home. The purpose would be to promote that specific portion of the general welfare which depends upon achieving this stated national goal.

Many individual purposes can be pursued within the broad purpose of promoting the general welfare through exercise of the police power. The Supreme Court has ruled in many cases that the State has wide discretion in applying the police power to promote the general welfare. So long as there is a reasonable relation between the purpose of a regulation and the promotion of the general welfare, whether or

not the Court agrees with the purpose of the regulation, the Court will not set aside the regulation on constitutional grounds.

Those groups now interested in housing standards should take the lead in developing these new standards. All professional groups and disciplines having knowledge useful to attaining this goal—health, safety, maintenance, financing, city planning, sociology, psychology—should contribute to the effort. Above all, the broad health concept of a “positive state of physical, mental, and social well-being” is basic. The Interdepartmental Health Council and the standards-setting institute we purpose should also be included in the organizational plans.

**(c) Vigorous enforcement of housing codes**

The Commission urges restoration of housing code credibility by development of two different sets of standards, one covering the older inventory built before a date to be set by the locality, the other to cover housing built after that date. Such an action would make it possible for local jurisdictions vigorously to enforce the housing codes. In order to permit such enforcement, the Commission recommends that local governments, with State and Federal assistance, develop interim housing for those displaced as a consequence; this will require forthright action on the part of the Federal Government to meet the goals for housing the poor mentioned elsewhere in this report.

As we have pointed out, existing housing codes are often not enforced.

Our long-range goal is to phase out the lower standard, including many low standards in existing codes, and have all housing subject to standards assuring a decent home for all Americans. Again, we stress that the achievement of that goal can come only by providing housing subsidies for the poor.<sup>37</sup>

**(d) Adoption of new concept: Neighborhood conservation code**

The Commission recommends recognition, followed by implementing action by all levels of government, of a new and broader approach to conservation of the residential environment; namely, a change to neighborhood conservation codes applicable to all

<sup>37</sup> Two basic references available for a start on preparation of these two new sets of standards prepared by the APHA are “Basic Principles of Healthful Housing” (May 1939) prepared by the APHA Committee on Hygiene of Housing under C. E. A. Winslow, and the revised statement (April 1968) “Basic Health Principles of Housing and Its Environment” prepared by the APHA Committee on Housing and Health under Charles Senn. These statements provide a wealth of information which could be drawn upon to get a new standard setting effort underway. They were not designed to cover all the criteria for a decent home, however, and therefore are not as broad as the needed study should be.

**property—public as well as private, and nonresidential as well as residential—in residential neighborhoods.**

Present housing codes do not apply to all elements of the neighborhood residential environment, and thus are inadequate to express the fullest potential of the police power and other powers of government in supporting the maintenance aspects of the national housing goal of a "decent home and a suitable living en-

vironment." Principal current deficiencies lie in the areas of control of privately owned nonresidential properties in residential areas, and provision of adequate public facilities and services in or for residential areas. These deficiencies should be corrected to allow full potential for neighborhood improvement activities.

If a single code were to be used, it could follow the proposals in the following chapter on development standards.



## CHAPTER 5

# Development Standards

The Commission, complying with its congressional and Presidential directives, undertook exhaustive studies of issues associated with building codes, housing codes, zoning ordinances, and subdivision regulations, and found an urgent need for improvement in all of these areas. It also found, however, that examining these areas separately was not enough. The formation and administration of rational regulatory instruments requires a broad review of the total framework in which standards are promulgated and incorporated into codes and policy guidelines.

We define *development standards* as a general term encompassing *all* the regulations and guidelines used by local governments to control their physical development—including are standards for development and redevelopment, for conservation, and for environmental control. These standards rarely, if ever, have been subjected to a comprehensive review.

We believe that the formulation and administration of development standards must be viewed in a comprehensive way to enable urban areas to—

- Guide and regulate community development on a more rational basis, using technically valid standards.

- Discover and fill in the gaps where development control is needed but does not now exist.

- Effectively codify, implement, and enforce local standards for development.

In the process of conducting such a comprehensive review, localities can also—

- Uncover and resolve the many conflicts between one body of regulations and another.

- Remove impediments to design innovations.

- Remove certain burdens now unfairly imposed on local technicians.

- Untangle administrative confusion and duplication at the national and local levels.

- Provide much-needed “one stop” service for developers.

Today, common problems among all types of local regulations and policy guidelines seriously weaken the ability of localities to exercise effective

control over development in built-up areas, on the urban fringe, and beyond. One may begin to understand development standards through a review of such local regulations. But many other standards not formally incorporated into codes or ordinances are used by communities and private groups. These, too, have a pronounced effect on local development and must be viewed as part of the total system of development standards. Hundreds of standards are involved.

The dispersion of standards throughout many separate codes and policy documents has implications for the administration of standards as well as for their content. The standards in various documents are drawn up by different sets of experts, adopted under totally unconnected legislative or administrative processes by various bodies, and administered by many agencies operating independently of each other. As a result, communities are handicapped in trying to guide growth in a rational way. Furthermore, developers find it necessary to refer to each separate regulation, determine its peculiar application to a given project, obtain whatever permit it requires, and consult separately with the administrators of each independent code-enforcing department. Developers, rather than the government agencies, must try to resolve inconsistencies to the satisfaction of each administrator. The result, of course, is higher costs passed on to the consumer.

The time is long overdue for a complete reevaluation of existing development standards and a reorganization of the administrative machinery through which they are applied.

### LACK OF COMPREHENSIVE ORIENTATION

The most serious shortcoming of present development standards and instruments is that neither the environment nor the dwelling is treated by communities in a comprehensive way, in terms of the “complete environment” and of the “complete dwelling.”

The complete dwelling, for example, would include more than the physical structure of a single building or an apartment within a large building. The building alone involves factors

relating to structural stability and safety; health (light and air, washing facilities for people and clothes, toilet facilities, food storage facilities); human response and comfort in terms of light, temperature, acoustics, and space; privacy; storage; internal access and convenience. But the building does not exist in isolation. It has a relationship to its lot (area, shape, grade, total open space, usable open space, parking, walks, landscaping) and it is related to the immediately adjacent environment by utilities (water, sewers, power, telephone), local service facilities (garbage and waste pickup, mail delivery) and public facilities (streets and sidewalks).

We are not blaming either developers or local officials for failing to consider all the related factors comprehensively during the development process. Both the public and private spheres are caught up in the morass of procedures, requirements, and agencies which have accumulated like barnacles over the years. We must now recognize, however, that a coordinated orientation to the home and its environment is obstructed by the present system of development standards.

The Commission's analyses of specific standards and of individual codes revealed many weaknesses. Certain standards are arbitrary, of questionable technical validity, or outmoded in terms of current knowledge. Some standards lack uniformity from one jurisdiction to another. Others conflict with each other within the same jurisdiction. Some inhibit design innovation. And many standards reflecting new concepts unfortunately do not yet enjoy widespread use throughout the country. These problems are examined below in more detail.

#### *Questionable technical validity of standards*

The Commission found many standards that use statistics or mathematical formulas to convey an aura of technical or scientific validity, but the evidence to support or justify such standards frequently does not exist. Too often, even the experts do not agree with each other on these matters.

It is not necessary to identify which standards in each of the following categories are technically valid. Perhaps none are. The very existence of variations casts doubt on the technical validity of the standards in the examples given.

(1) *Serious discrepancies in standards concerned with fire safety.*—With no demonstrated technical rationale for the differences, walls of similar material must be constructed in different width in order to achieve the same objective of fire resistance. According to the various model building codes, floors in a type I fireproof build-

ing must be constructed with fire resistance ratings of 2 hours (Uniform Building Code), 2½ hours (Southern Building Code) and 3 hours (BOCA Building Code and National Building Code).

(2) *Sleeping room space requirements.* The American Public Health Association-U.S. Public Health Service (APHA-PHS) model housing code requires that sleeping rooms for occupancy by one person contain a minimum area of 70 square feet. The model code of the International Conference of Building Officials requires a minimum of 90 square feet. Local and State housing codes show such variation as 80 square feet (Seattle), 100 square feet (San Francisco), and 120 square feet (Hawaii). The wide variation carries over from dwellings to accommodations for transients. A survey of State standards for transient housing indicated that minimum area for rooms in hotels and motels varied as follows: 50 square feet (three States); 60 square feet (two States); 80 square feet (two States); and 100 square feet in cabins and tourist camps (one State). Standards for minimum room volume for the first occupant in these rooms also have wide variation: 400 cubic feet (five States); 500 cubic feet (two States); 600 cubic feet (one State) and 640 cubic feet (one State).

(3) *Minimum habitable floor space.*—For five persons in an existing dwelling unit, model housing codes call for the following standards of minimum habitable floor space: 525 square feet (Southern Standard Housing Code), 550 square feet (APHS-PHS and BOCA Housing Codes), and only 380 square feet (ICBO Housing Code). Turning from housing codes to zoning ordinances, which similarly set standards for minimum floor area, note the figures in table 1. Even if the minimum standards specified in housing codes for *existing housing* were to be doubled to reflect a desire for a more suitable living environment as specified in zoning ordinances for *new housing*, what technical rationale can explain the wide variation and apparent excessiveness of these standards currently in use in New Jersey and New York?

TABLE 1.—VARIATIONS IN BUILDING FLOOR AREA REQUIREMENTS FOR RESIDENTIAL LOTS OF SIMILAR SIZE  
[Generally excluding nonliving areas such as utility areas, basements]

Locality	Lot size (square feet)	Minimum floor area (square feet)
Edison, N.J.	7,500	960
Cherry Hill, N.J.	7,800	1,350
Milburn, N.J.	20,000	1,800
Smithtown, N.Y.	21,780	1,100
Milburn, N.J.	29,000	2,000
Wayne, N.J.	30,000	1,200-1,600
Somers, N.J.	40,000	1,250
Parsippany-Troy, N.J.	40,000	1,350-1,900



(4) *Criteria for school site location.*—Traditionally, each neighborhood has its own elementary school. Some urban areas today are experimenting with campus-type schools serving much larger areas, with busing to make better use of schools with surplus classroom space, and with other alternatives to older patterns. Yet a preponderance of comprehensive plans and other local policy guides do not reflect this state of flux and still provide guides only to the neighborhood unit principle. This is only one example of inadequate standards being used to guide modern development which may or may not find the old guides useful.

These examples illustrate that inadequate standards or those of questionable validity exist throughout the country. Unfortunately, communities cannot determine with assurance whether each standard they adopt is a technically valid norm or is too lenient or excessive. Such a norm in fact may not have been determined, or, if it has, may not be readily identifiable from the proliferation of standards which do exist. Numbers and mathematical formulas, including those which are little more than educated guesses, have been locally accepted and maintained in many cases because they provide easy guides to inspectors and facilitate the review of plans submitted for official approval.

#### *Technical versus policy standards*

Much of the confusion over standards stems from the claim or aura of scientific validity on matters which are almost purely policy questions, and, conversely, from interference on political grounds with matters that are essentially technical considerations. As a beginning, policy-makers need to know where technical fact ends and where public policy begins. Then standards may be evaluated and accepted in their proper perspective.

There are differing bases for standards and a wide variation in the capacity of standards to be scientifically determined. Standards run the full scale, from pure policy—for example, that trees should be planted on two sides of residential streets—to pure technical specification which is scientifically derivable; for example, that a given steel beam can only withstand so much stress.

The relationships between policy and technical factors concerning a given issue are generally overlooked; sometimes they are not neatly separable. For example, development policy is the predominant factor in a local decision not to provide sewer service to a section of the locality for a number of years. In relation to this policy standard, however the locality can determine a technically valid standard for the maximum residential density which the unsewered

area can support with the use of septic tanks. This maximum residential density, in consideration of waste disposal factors, should not be exceeded if health and safety are to be protected. If the locality adopts a density standard significantly lower than is technically permissible in the area—for example, one dwelling per 2 acres instead of the “safe” standard of one dwelling per acre—then *policy* remains more the basis of the standard than does technical knowledge. Once the no-sewer decision is changed on policy grounds, however, then other technical and policy factors become involved in determining density.

Another example of the interrelationship of policy and technical knowledge concerns water “cleanliness.” Technical standards for water cleanliness can be scientifically established, but public policy first must determine if the water is to be good enough to drink, suitable to swim in, or just clean enough to wash streets.

To summarize this point on questionable technical validity, the origins of standards are often obscure. Many standards were not even purportedly based on scientific criteria at the time of their formulation. Others necessarily relied on the limited knowledge and experience available years ago. As new codes and regulations were added to deal with emerging problems, the new standards sometimes were incompatible with earlier codes. Although these problems have long been recognized, little progress has been made toward producing a more rational, valid set of development standards. Tradition frequently has prevailed over the application of new and improved methods, materials, and development concepts. Astonishingly little use has been made of the Nation’s growing ability to test standards and to devise and apply performance tests.

#### *Lack of uniformity on an areawide basis*

The lack of uniformity in standards is clearly a major problem. As noted in the chapter on Building Codes, this problem is a deterrent to the manufacture and distribution of standardized homes and building components on an areawide basis. In this instance, uniformity for its own sake would have merit.

In certain other cases, uniformity for its own sake on an areawide basis is less important than technical validity. A case in point is the variation in standards for grades of streets as spelled out by local subdivision regulations in the metropolitan area of Durham, N.C. The maximum allowable grade is 5 to 8 percent in the towns of Chapel Hill and Carrboro, 8 percent in Orange County, and 10 percent in Durham County. Perhaps no far-reaching damage results from these local inconsistencies. But com-

munities presumably would not adopt a less-than-safe standard, nor would they adopt excessive standards that would cause developers and homeowners to pay more for roads than necessary, if an authoritative technical standard were defined and made available.

Besides studying the lack of uniformity in the substance of specific standards, the Commission also examined the needless inconsistency in the terminology of standards from one locality to another. For example, minimum area for a bedroom in different local codes is expressed as "*x* sq. ft.," "*x* sq. ft. of superficial floor area," "*x* sq. ft. of SFA," "*x* sq. ft. of gross floor area," "*x* sq. ft. for one occupant," and so forth. Even assuming the desired minimum area of the room actually is the same in each instance, a builder operating in a variety of jurisdictions would have to make many computations before determining this fact. This is a great nuisance, and one that easily could be corrected.

Many of the inconsistencies in the substance and terminology of standards stem from the kind of governmental fragmentation discussed in the section on governmental structure and would be resolved by following Commission recommendations in that area. But part of the blame also lies in the tradition of autonomous operation of the various codes and from the failure to take a comprehensive look at all standards affecting development.

#### *Conflict among standards within the same local jurisdiction*

Conflict in code standards pertaining to the same subject (or related subjects, as discussed below) generally occurs because two or more agencies within the same local jurisdiction are given the power to develop standards and codes but are not required to coordinate the activities of their respective agencies.

Under such circumstances, it is likely that a zoning ordinance developed by the local planning commission may not dovetail with the requirements of a building code developed and administered by the building department. In Los Angeles, for example, the city *zoning ordinance* forbids pylon-type signs except for building identification, and limits even these in size, while the *building code* in that city permits large "rooftop signs" to be constructed for building identification. Since the building code defines a legal roof as anything over 4 feet square and 8 feet off the ground, enterprising builders evade the zoning restriction by designing large pylon signs with the vestige of a roof attached to one leg. Often the "roofs" are designed to be detachable, and shortly disappear.

From the standpoint of good codemaking and effectiveness of law, such practices tend to breed distrust and cynicism.

#### *Rigidity in standards deters design innovation*

The rigidity of standards in local codes unquestionably prevents design improvement. Designers and builders attempting to improve the urban environment are restrained from attempting innovations by inflexible standards which limit design concepts or bar the use of a wide range of materials and new construction techniques.

Fixed dimensions, particularly those of questionable technical validity, too often serve as straitjackets to good design. Standards applied to the planning of sites and to the interrelationship and placement of buildings on a site tend to be particularly inflexible. The typical lot-by-lot regulations of zoning ordinances have been widely and properly criticized on this basis. Two widespread effects of rigidly defined building envelopes (including standards for building separations, building height, and front, side, and rear yards) have been the needless destruction of natural site features such as slopes, trees, and rock outcroppings, and the design monotony typical of many large developments. Designer after designer has reported to the Commission that the same objectives for safety, health and welfare which the standards ostensibly seek could be achieved in ways other than permitted by many local codes. As reported in the chapters on zoning and land use controls, a few forward-looking communities have begun to ease rigidity through adoption of new methods of land use control.

Arbitrary enforcement of rigid standards often leads to absurd conditions. For example, the roof of a six-story wood-timber structure in Brooklyn had to be lowered 2½ feet because State law requires that a building used for residential purposes may be constructed of wood flooring and roofing only if the roof height does not exceed 70 feet. Thus, the project of the city of New York to provide housing for artists in a building built and used as a factory since the 19th century incurred additional costs in order to conform to the strict letter of the law.

Inflexibility and inhibitions on design innovations caused by standards which identify specific building materials or measurements are discussed in the chapter on building codes. Most experts believe that many of these problems would be resolved if, instead of specifying a particular accepted material or measurement, standards were expressed in terms of performance. This would permit the introduction of innovations which meet performance criteria.

The Commission endorses use of performance standards wherever feasible. But we recognize that the immediate use of performance standards for a wide range of development controls



appears to be limited. Such standards require detailed knowledge of the kind of performance required, plus an ability to measure or test whether that performance is met. More knowledge than is presently available is needed to hasten reliance on performance standards. Even when sufficient technical information is available, the difficulties of describing the standards precisely and in terms easily understood by design professionals, builders, and local officials are considerable.

#### *Neglect of sound concepts of development control*

In our research we encountered numerous innovations in development control which only a few local governments have adopted. These concepts deserve much wider acceptance than they have been accorded.

Among these advanced concepts are provisions for multiple use of land; for planned unit development; for protection of natural features such as streams, trees, beaches, and rock outcroppings; for the preservation of structures and places of historic or architectural importance; and for restoration of despoiled landscape, air, or water. Cities and towns can address themselves to all of these at an appropriate scale. Others, such as controlling pollution of a river or conserving a forest, require action by county, State, regional, and Federal jurisdictions.

Neglect of these sound concepts results from various causes. Public officials often are reluctant to impinge on certain traditionally non-regulated aspects of private development. Frequently there is neither public nor private concern. This, in turn, often underscores a lack of information and promotion. Even when inadequate exposure to new concepts is overcome, governments may fail to act because of vested interests and pressure groups. Or, because of defective structure or inadequate finances, they may also be incapable of meeting the challenge of desirable innovations.

### THE "DEVELOPMENT STANDARDS" APPROACH

The one difficulty with standards that is probably least understood, even by many professionals, is the interrelationships of standards. More precisely, there is a great failure to recognize and deal with these interrelationships. We begin to deal with development standards only when the interrelationships, the overlapping, and the gaps among all standards are investigated, and when we consider the roadblocks that the current system of development instru-

ments puts in the path of worthwhile objectives. The problems with the whole system involving the promulgation, codification and administration of standards then come into proper focus and perspective.

#### *The framework of instruments*

While there are signs of a long-overdue trend toward comprehensive examination of urban problems, scant attention has been paid to the need for applying this approach to development standards. It is both timely and logical, therefore, to examine here the cumbersome and obsolete framework of instruments that guide development and redevelopment, conservation and environmental control.

The system is complex. It has grown piece by piece in response to certain needs and objectives. New instruments have been added one to another until now, on the local level alone, in addition to the four major types of public regulatory instruments, there are at least 11 supplementary types of public regulatory instruments and seven types of public guide instruments which affect development, redevelopment, and conservation activities. These are the instruments on which localities must rely in their efforts to promote the health, safety, and welfare of their inhabitants.

The number of instruments in use will vary from locality to locality. They are summarized in table 2. In addition to those listed, there are, of course, many other instruments adopted by county, metropolitan, State, regional, or Federal agencies which tend to overlap all the local instruments.

TABLE 2.—LOCAL REGULATORY AND GUIDE INSTRUMENTS CONTAINING STANDARDS: THE FRAMEWORK AND SYSTEM OF STANDARDS

#### Local public regulatory instruments:

##### 1. Major types:

- Building code and related electrical, plumbing, and heating codes
- Zoning ordinance
- Subdivision regulations
- Housing code

##### 2. Supplementary types:

- Fire code
- Industrial safety code and miscellaneous safety orders or codes covering such things as elevators, construction practices, scaffolding, pressure vessels, and storage of hazardous materials
- Site design regulations
- Urban renewal plans (one for each local urban renewal project)
- Health and sanitation codes
- Flood control ordinance
- Air pollution control ordinance
- Water pollution control ordinance
- Billboard control ordinance
- Trailer ordinance
- Rehabilitation standards

Local public guide instruments:

- Comprehensive plan (including capital improvement program)
- Community renewal program
- Urban design plan
- General neighborhood renewal plans
- Plan for model city area
- Conservation plan
- Historic and architectural preservation plan

Other public requirements:

- FHA minimum property standards

Private instruments:

- Insurance underwriters standards
- Lending agency standards

*Local public regulatory instruments*

The four major types of local codes are discussed in much greater detail in other chapters of this section. They are briefly summarized here to indicate their relationships.

The *building code* was the first type of regulatory instrument involving exercise of the police power in general use. In time, building codes were supplemented with other related instruments, all designed to further protect the public, including electrical, plumbing, heating, fire, and industrial safety codes, and several miscellaneous safety orders and codes covering such items as elevators, construction practices, scaffolding, pressure vessels, and the storage of hazardous materials. The major orientation of building codes is toward safety.

In the 1920's, the *zoning ordinance* became the second major type of regulatory instrument. Its primary concern was to define the relationships among activities, buildings, and public facilities. Zoning ordinances generally contain standards which regulate land use; population density; occupancy; building height; front, side, and rear yards; offstreet parking; minimum house sizes, and miscellaneous elements including signs and offstreet loading.

Although regulation of land subdivision has existed in this country from its earliest days, it was not until the 1920's that *subdivision regulations* became a major regulatory instrument along with zoning. Widespread adoption began after World War II in response to the housing boom. Complementing both the guidelines established in local comprehensive plans and the regulations of zoning ordinances, subdivision regulations primarily govern the process by which lots are created out of larger tracts. Standards establish criteria which affect the form of a subdivision (block lengths, width and intersections of streets, street gradients, slope of land), the design and construction of public utilities and facilities (streets, water lines, sewer lines, street signs, sidewalks, curbs), and the preparation of building sites. Subdivision regulations also serve as a how-to-do-it manual by informing potential subdividers of their

obligations and outlining administrative procedures.

Largely in response to poor living conditions in urban areas, public health requirements began to be established in the mid-1800's. But the modern *housing code* or ordinance was not introduced until the early 1900's, and then it became established only in a few cities. Widespread adoption by communities began in the 1950's. Unlike building codes, zoning ordinances and subdivision regulations, all of which attempt to guide new development, housing codes attempt to bring existing housing up to a minimum standard. They set minimum health and safety requirements for occupancy, establish minimum facilities for dwelling units, and set maintenance requirements for dwelling units and residential structures.

By the 1950's, therefore, building (and related) codes, zoning ordinances, subdivision regulations, and housing codes had become established as the major framework of local instruments for regulating development activities and health conditions within the country's major cities and towns.

Since that time, as new concepts filling specific needs began to be publicly recognized, the more advanced communities fit the new concepts into one of the major types of regulation, adopted new regulations (see supplementary types in table 2), or at least adapted them into some type of guide plan. Most of the concepts have a single-purpose orientation.

Cities, in order to qualify for Federal urban renewal grants beginning in 1949, had to prepare acceptable *urban renewal plans*. These were the first regulatory instruments with a comprehensive approach. They have the *potential* to examine and resolve the major problems on an areawide basis; to confirm previous standards or set new ones; and to involve public policy for the inclusive activities of development, redevelopment, and conservation. Urban renewal plans can and do fill in some of the gaps, resolve some of the conflicts and confusion of other regulatory instruments, and update standards which are obviously obsolete. Three new elements for which some urban renewal plans have set up standards are design, quality of development, and timing of development. Although comprehensive in orientation, an urban renewal plan is enforceable only within the boundaries of the urban renewal project and thus has no regulatory effect on a communitywide basis.

*Local public guide instruments*

In addition to the regulatory instruments discussed above, standards also are codified in a wide variety of nonregulatory public instruments which serve as guides for development,



redevelopment, and conservation activities. The *comprehensive* (or general) *plan* has been the major instrument for guiding development at the local level. As a minimum it generally includes plans for land use, community facilities, and circulation.

As new concerns have come into public attention, the elements of comprehensive plans have been expanded, or new instruments, such as *urban design plans* and *historic and architectural preservation plans*, have been prepared and sometimes adopted as official local policy. In response to assistance available in Federal programs, *community renewal plans*, *general neighborhood plans*, *model city plans*, *areawide transportation plans*, *areawide economic development plans* and *areawide conservation plans*, among others, have all become new guide instruments. Each contains standards.

All the publicly developed regulatory and guide instruments discussed above are not the sum of instruments influencing development activities, however. The FHA minimum property standards and miscellaneous privately developed codes, such as insurance underwriters' standards and lending agency standards, also have a significant influence on development, sometimes more so than local public instruments.

In summary, there is a large package of codes, ordinances, regulations, and plans, both publicly and privately developed, all of which are basically oriented to assuring sound development, redevelopment, and conservation activities in the environment. To say the current situation breeds confusion is to state the obvious.

Yet, almost no localities are concerned even with appraising the impact of this maze of development instruments on local goals and objectives. The hundreds of standards contained in the numerous instruments are integral elements to the total process of urban development. Nevertheless, the traditional approach by local and State governments, and even by the Federal Government, has been to view each instrument as a separate subject, almost totally unrelated to the others.

#### *Failure to achieve community objectives*

The piecemeal approach to development instruments contributes to the piecemeal and frequently ineffective implementation of broad community objectives. Emphasis on specific minor factors has become so individually important in the development and administration of standards within separate codes that major objectives have been lost in the shuffle. The fact that we continue to be concerned with individual unrelated standards without considering their collective ultimate success raises serious questions. (See table 3.)

Air pollution controls provide an illustration. First, within the framework of the four major types of codes alone, different types of standards are written into separate codes by technicians in different fields of specialty. For zoning ordinances, planners determine where potential air-polluting activities should and should not be located. In some communities, engineers develop industrial performance standards in which prevention of air pollution is a major concern. For building codes, engineers and architects develop standards for the construction and location of vents and venting systems, blowers and exhaust systems, and incinerators. For housing codes, health specialists develop standards for the provision and maintenance of equipment similar to that covered in building codes.

As cities are confronted with smog and its accompanying ill effects upon the health of urban residents, old regulations and new ones, such as for automobiles exhaust, receive added attention. But the experts have begun to realize that an uncoordinated approach to the problem stands in the way of achieving a long-range solution. Respiratory ailments resulting from pollution finally forced an awareness of the weaknesses inherent in the current nonsystem of standards on the subject of air pollution. Although awareness is now here, significant comprehensive action to deal with the problem has not yet occurred.

On another issue—the goal of assuring natural light in dwellings—there is not even general awareness. Building codes, housing codes, and zoning ordinances all seek this objective. In uncoordinated ways, each attempts to implement the same objective through different types of standards. Building codes specify minimum dimensions or areas of windows, courts, light wells, building separations, and habitable rooms. Housing codes regulate the minimum size of habitable rooms, area of windows (as a proportion of floor area), and height of windows above the floor. Zoning ordinances specify minimum dimensions of yards and courts, and maximum height of buildings. Numbers of mathematical formulas of questionable validity are written into each of these types of standards.

There is little effort to reach a common objective by those who develop or administer standards. If there were such an effort, it would be obvious that a technically valid standard for the total quantity of natural light needed by persons within dwellings does not now exist. How can the objective be achieved when an unknown quantity is indirectly controlled through such regulations as the size of yards and window areas? (Note that somehow dur-

ing the past years of writing standards, the decision was made that people in commercial and industrial structures do not need any natural light to carry out their functions.)

If one assumes that natural light is needed in a dwelling and that the amounts needed for given purposes can be quantified, however, then a comprehensive approach to the objective would consider other factors generally not now considered. They would include the direction which windows face; the effect on light penetration caused by all types of obstructions, including buildings, billboards, and walls; the use of skylights which may admit more light into a room than windows; or the use of uncommonly dimensioned or located windows which might permit better views or more privacy. Thus, whereas FHA standards now require that the top of windows in habitable rooms be at least 6 feet 4 inches above the floor, it is quite conceivable that sufficient natural light and a more pleasant view and design arrangement could be provided in a room which faces an exposure providing a maximum amount of light, even if the head of the window were lower than presently required.

Fire safety is another area where achievement of an objective is weakened by the present system of standards. Building codes contain standards for building separations, egress from buildings, and materials and methods of construction. Housing codes require the proper maintenance of interiors, exitways, and heating equipment in residences. Zoning ordinances regulate the location and physical relationship of land uses involving hazardous activities, the

separation of buildings and access to properties.

The common thread of fire safety which runs through all regulations makes it necessary that the development and enforcement of standards in this important area be comprehensive and consistent. The overall concern should be hazard-free construction and maintenance, and, in the event of fire, quick evacuation of buildings and unobstructed access for fire engines.

But such comprehensiveness and consistency is unlikely to be achieved in the context in which standards are currently developed, codified, and enforced.

### *Gaps in development standards*

Despite the abundance of overlapping standards, serious gaps remain. Some regulations enforced on a communitywide basis reflect only a part of a broad objective. A prime example is the effort to maintain sound existing conditions and to prevent the spread of blight. To date, housing codes are the only major communitywide type of regulation directed to this objective. But since they regulate the maintenance only of residential structures and the specific lots on which the structures are sited, the objective is implemented on a very limited basis.

Every city confronted with spreading blight has neighborhoods in which commercial, industrial and public uses, as well as residential uses, are subject to deterioration. But except for building, fire, and health codes which attempt to eliminate conditions which are *hazardous* to life and limb, deteriorating properties short of being hazardous are not subject to maintenance regulations.

TABLE 3.—IMPLEMENTATION OF OBJECTIVES THROUGH SEPARATE DEVELOPMENT INSTRUMENTS—EXAMPLES OF THE INTERRELATIONSHIP OF STANDARDS AMONG BUILDING CODES, HOUSING CODES, ZONING ORDINANCES, AND SUBDIVISION REGULATIONS

Principal participants in developing standards and codes	Building codes	Housing codes	Zoning ordinances	Subdivision regulations
	Engineers-architects	Health specialists	Planners-engineers	Engineers-planners
ELEMENTS REGULATED				
Subject of objective:				
1. Natural light (penetration, quality, location).	Windows, yards, courts, light wells, habitable room size, building separations.	Windows, habitable room size	Courts, yards (front, side, rear), building height.	
2. Access and egress.	Access to streets, corridors, stairs, doors; exits; access to bathrooms and bedrooms.	Corridors, stairways, doors, exits; access to bathrooms and bedrooms.	Required access to streets	Required access to streets.
3. Occupancy.	Room dimensions (area, least dimension, ceiling height); minimum area per person.	Room dimensions (area, least dimension, ceiling height); minimum area per person, minimum area per dwelling unit.	Minimum area per dwelling unit	
4. Air supply.	Windows; air conditioning	Windows; air conditioning	Windows, yards, courts	
5. Water supply.	Sizes, materials, and construction; fixtures.	Materials, temperature, fixtures, maintenance.	Relation of uses to water supply	Sizes, materials, construction.
6. Air pollution (discharge into air).	Vents and venting systems, blowers and exhaust systems, incinerators.	Vents and venting systems, blowers and exhaust systems, incinerators.	Industrial performance standards; land use locations.	
7. Water pollution.	Plumbing systems, septic tanks	Maintenance and functioning of plumbing and fixtures.	do.	Water courses, ground cover, grading.
8. Heating.	Design and construction	Design and maintenance		
9. Fire safety.	Construction and materials, building separations, access and egress.	Maintenance requirements for interiors, exitways, and heating equipment.	Land use separations and relationship, building separations, access.	Access.



Legally nonconforming structures also pose particular problems for conservation in many neighborhoods. Such structures or their use have been judged to be incompatible with the surroundings. Zoning ordinances prohibit the owners from undertaking major renovations. If the structures provide a profitable return, however, they do not disappear; they linger on in neighborhoods as blighting influences. There is a gap in the system.

Conservation of neighborhoods, residential or otherwise, may be a local objective, but achievement of this objective generally cannot be assured with the regulatory instruments presently at our disposal. Federally assisted code enforcement projects may be undertaken, but, like housing codes generally, these are oriented to residential neighborhoods. Elsewhere in this report the Commission makes a recommendation to resolve this gap in development standards by giving a larger focus to neighborhood conservation.

Gaps also exist because some regulations reflect a public policy which is enforced only in particular sections of a locality. For example, the policy that private developers should donate land to a locality for certain public facilities, or pay a fee in lieu thereof, has been widely adopted. Regulations implementing this policy are written into subdivision regulations. But many large new apartment complexes, because they involve no new subdivision of land, escape being subject to these regulations. This situation, besides illustrating a gap in development standards, is clearly inequitable; some developers contribute toward schools and parks to serve their dwellings, while others do not.

Site design controls are typically incorporated in subdivision regulations. Shopping centers and large apartment developments (as in the previous example) may escape site design regulation. A few localities, recognizing this gap in their development controls, have adopted site design regulations (apart from subdivision regulations) which are enforced uniformly throughout the community.

There are still other gaps—the missing standards which are in none of the codes and have yet to be developed. There are few standards, for instance, dealing with noise in the environment. Also largely unregulated are linear commercial and industrial uses along highways, which often exist as miles of roadside blight.

The investigation of such gaps leads to the logic of one comprehensive body of development standards for all development activities.

#### *Weaknesses in the present system of promulgating standards*

The process by which standards are developed, tested, approved, reevaluated over time,

and kept up to date is complex and, at the present time, totally inadequate. It requires the talents of a vast array of experts. It becomes even more complicated when the same body attempts to promulgate both standards and model codes.

At the national level, professionals, professional groups, and trade associations quite naturally concentrate on developing standards in their respective fields of interest. There is no system for coordinating their efforts. Engineers, architects, health specialists, conservationists, and recreation specialists, among many others, together with their affiliated groups, tend to work in isolation. There is little consideration of the interrelationship and joint role of the various disciplines in resolving the common problems of physical development in a community.

No group has a program for measuring the impact of its standards on the costs of development or on the total environment in a community. The standards such groups promote are often not reevaluated. Whether objectives have been actually achieved by adherence to standards set forth is not known, even though the standards may have been adopted and used for many years by localities. Although some standards are periodically updated, too many appear to be relayed from one generation to another without question.

At neither the National, State, nor regional level is there a primary source, or even a recognized group of sources, looking at all standards in a comprehensive way, to which persons responsible for recommending standards for local approval can turn for assistance. There is no compendium of technically valid development standards, nor for that matter even a compendium of acceptable, recognized standards in current use which relate comprehensively to the control of urban development. As discussed previously, even the several special-purpose model codes of nationally respected bodies have inconsistencies among them, weakening the claim of these codes as models.

At the local level, the same confusion in the organization and roles of standards makers and codemakers exists as at the national level. The unfortunate end result traditionally has been that the technicians of each agency work in relative isolation from each other and the regulations and standards they prepare are not coordinated.

There is great variation in the methods by which standards are searched out, analyzed, and adopted at the local level. For example, the census survey conducted for the Commission shows that although many communities base their building regulations on one of the national model building codes, extensive changes made

locally often result in restrictions against the use of new materials and methods of construction. The study of building code administration for the Commission by the National League of Cities indicates that deviation from the model codes is strongly influenced by groups with vested interests.

Promulgation of technically valid standards requires the combined talents of many experts. Even if local technicians do not actually develop standards for a particular subject, they must seek out standards which are in use. Generally they find varying standards on the same subject which they must evaluate before recommending one standard to elected officials. This evaluation problem alone is an awesome burden thrust on local technicians. Through no fault of their own, these technicians cannot have the expertise necessary to evaluate all the standards which a locality must use. The Commission hopes that adoption of its recommendations on formulation of standards will help rectify this problem.

Qualified technicians are rare in the standards field. Even if they were available to all local jurisdictions, which they are not, the largest cities could not afford to employ the technicians necessary to promulgate all development standards. And, unfortunately, it is the smallest communities, where development pressures often are the greatest, which have the least amount of technical talent available. For example, only 20 miles from Washington, D.C., Charles County, Md., has no subdivision ordinance as such and shares one professional planner with two neighboring counties. This part-time planner cannot possibly prepare a system of integrated development standards. Yet a new town proposed for more than 100,000 people on 8,000 acres is now under construction in that county.

Because of limited staff resources for in-depth research, local technicians often find standards in regulations of neighboring jurisdictions. Since the standards have been adopted by other local governments, the technicians often erroneously believe them to be technically valid and not obsolete. Even if appropriate sources were available, time to verify the acceptability of standards is not available. The standards may be blindly adopted with no knowledge of their potential impact on local, or—even more significantly—on areawide and metropolitan development.

Finally, adopted standards tend to remain on the books for a long time without review or modifications which reflect current technical knowledge and current public policy. A major effort is required by sorely understaffed local departments to put aside the pressing matters

which come up daily in favor of the easily delayed long-range project of reviewing and modifying standards already adopted.

#### *Weaknesses with the administration of development standards*

Improving all development standards so that they are technically valid and based upon the most currently available knowledge still would not allow a community to guide its own growth adequately. There are too many local agencies, operating at too small a scale, in isolation from each other.

#### *Multiplicity of agencies*

The array of agencies involved in the administration of standards is the same, perhaps with a few more added, as that involved in the promulgation of standards.

Anyone trying to build or rehabilitate structures must pass through an exasperating labyrinth. The local planning board, zoning board, building department, health department, and engineering department all have responsibilities for one or more of the major local regulations. Also involved may be the school board, public safety department (police, fire, and civil defense), highway department, recreation and parks department, and library department. And finally, generally independent from all the previous local departments, are the redevelopment authority, the housing authority and the agencies or staffs responsible for the community renewal program or the model cities program.

The number of departments will, of course, vary from one community to the next, but generally there is little active coordination among local departments, each of which is concerned with one or more phases of development, redevelopment, and conservation activities. Each has its own operating procedures and regulations. The resulting conflict and redtape, particularly with relation to publicly assisted projects, have been continuously observed by the Commission.

The Commission realizes that unifying the administration of all standards and codes at the local level is a large order. There undoubtedly will be strong protests from many interests. But the job is worth doing. In the present situation, the separate administrators have little incentive to coordinate their efforts or, more importantly, to evaluate the impact of their separate decisions on the physical growth of the community.

#### *Small scale of operations*

Because of the cast-iron political boundaries around each incorporated entity, every jurisdiction feels that it must have its own policy and regulatory agencies and measures, regard-



less of its capacity to finance and administer them.

There is great variation among localities, both in the number of people available to administer regulations and in the technical competence of such personnel.

In the smallest jurisdictions, one engineer generally is responsible for all technical work. He is usually a trained civil or mechanical engineer who has had experience with contracts and contractors, can write specifications, and can supervise the construction of utility lines, streets, and minor buildings. He is not only the expert responsible for recommending approval of all local standards concerning development, but also the administrator of the several local development instruments into which the standards are codified.

There is no cutoff point where a community changes from a one-man operation to larger and larger staffs involving several agencies. Regardless of community size, a Commission survey clearly shows that professionals and technicians (including inspection personnel) employed by local governments for planning, zoning and subdivision regulation activities receive relatively low pay. In municipalities and New England-type townships of more than 5,000 population, they receive an average annual salary of \$9,072. Among jurisdictions within SMSA's the average is \$9,564, but it falls to \$8,256 in jurisdictions of less than 50,000 persons. Outside SMSA's, the average is only \$6,732.

For these same planning, zoning, and subdivision regulations activities, in 81 percent of all governments surveyed, the top annual salary for the highest paid full-time professional or technical employee was less than \$6,000 in 1967. Among municipalities with less than 2,500 population, in SMSA's, 95 percent paid their highest salaried employee less than \$6,000. No metropolitan area municipality of less than 10,000 population paid its top man in these categories as high as \$15,000, and 60 percent of such localities had no full-time employees whatever. Ninety-five percent of metropolitan area municipalities of less than 25,000 population paid their top man less than \$15,000.

These salary scales cannot attract highly qualified professionals and technicians to positions in local government. The present system is staffed by people who, through no fault of their own, on the whole are not competently trained for the tasks of promulgating and administering development standards.

### Recommendations

The Commission believes that defects in the entire process by which standards currently are

developed, codified, kept up to date and administered cannot be resolved by stopgap measures, but rather require a comprehensive approach.

Specific standards may be improved on a piecemeal basis. Assembling of all existing codes that affect physical development in a municipality, and coordinating the administration of these codes, would greatly help all those who ultimately must use the codes. The latter actions would help bring to light the gaps where no regulations exist, and where action or inaction slips by to the detriment of the entire community. They would show up the schizophrenic moments when a housing code insists on an action which the building code forbids.

However, the standard-by-standard approach and the assembling and coordinated administration of all regulations would only be partial steps toward genuine development standards and cannot alone guarantee good standards and codes. This is all the more true because even the best model codes now available have serious inconsistencies, and because many aspects of development have not been studied at all.

The Commission accordingly proposes: (1) a national framework for the development and maintenance of technically valid standards for controlling all types of development activities; and (2) a new framework at the State and local levels for the adoption, codification and administration of development standards. The recommendations proposed by the Commission in other chapters related to standards and codes should all be considered within the context of the recommendations which follow.

### Recommendation No. 1—Establishment of a Council for Development Standards

The Commission recommends the establishment of a Council for Development Standards in the National Academy of Sciences-National Academy of Engineering, the Council to be chartered by the Congress as a continuing body composed of a National Institute of Building Sciences and a National Institute of Environmental Sciences. The express purposes of the Council are—(1) to formulate standards for regulating and guiding the construction of buildings and the physical development, redevelopment, and conservation of the urban environment (including its land, natural resources, and facilities); (2) to provide a system for testing and approving technological innovations, new building materials and equipment, and construction methods; (3) to provide a system for evaluating experiences of public and private programs affecting building and the development, redevelopment, and conser-

vation of the environment; (4) to coordinate on-going research and to program new research; and (5) to assemble and disseminate technical information relating to development standards, the building industry, technology, the urban environment and to the evaluation of public and private experiences in urban development.

The Commission recommends that the structure of the Council be based upon the widest representation possible of all major sectors concerned with development, redevelopment, and conservation in the urban environment. Included would be representation from consumer and public interest groups; professionals, including planners, architects, engineers, health specialists, and sociologists; professionals, technical and code groups concerned with generating standards for specific aspects of physical development; builders; producers; and government agencies.

Whereas effective communication concerning the broad spectrum of development standards has been almost nonexistent among these groups, the Council would provide, for the first time, a body within which such communication could take place. The comprehensive approach to all proposed Council and component Institutes' functions would be assured.

The Council would be responsible for programming and supervising all work under its direction. It would also coordinate all the work of the technical committees of the National Institute of Building Sciences and the National Institute of Environmental Sciences. The suggested organization of the Council and its component Institutes is outlined in chart 1.

(a) Framework for development and furtherance of environmental standards—the National Institute of Environmental Sciences

(Recommendations for the complementary National Institute of Building Sciences are included in the chapter on Building Codes.)

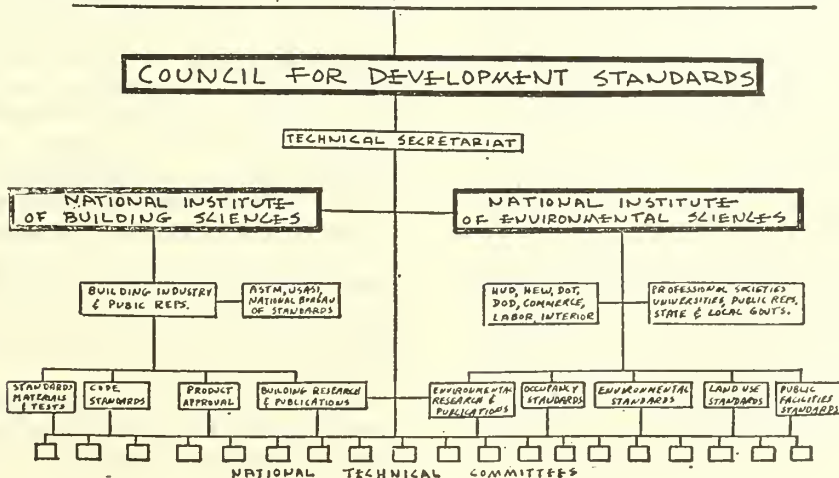
The Commission recommends that a National Institute of Environmental Sciences, to be a constituent body of the Council for Development Standards, undertake the following functions on a continuing basis, supported by an annual appropriation from Congress: (1) Compile and formulate standards for the physical development, redevelopment, and conservation of the urban environment, not including standards relevant to construction and building technology; (2) coordinate on-going research and program new research in fields directly related to development standards; (3) provide a system for evaluating experiences of public and private programs affecting development, redevelopment, and conservation of the urban environment; and (4) assemble and disseminate technical data relating to development standards and to the evaluation of public and private experiences in urban development.

The proposed Council and its constituent Institutes would provide a single system and source to serve all communities and States. This Institute would deal with all development standards except for those related to buildings, which would be the responsibility of the complementary National Institute of Building Sciences.

CHART 1

PROPOSED FRAMEWORK

NATIONAL ACADEMY OF SCIENCES & NATIONAL ACADEMY OF ENGINEERING





The development standards approach would be used. Major development objectives would be comprehensively analyzed, subsequently serving as the basis for new development standards. Standards would be promulgated on such specific subjects as human needs or comfort levels in terms of temperature, natural and artificial light, sound and smell, and requirements, related to land area and population density, for public facilities such as schools, recreation areas, open space, roads, water and sewer lines.

Drawing on the Nation's growing technical abilities to test standards, to devise and apply performance tests, and to evaluate large bodies of information to determine which, if any, of many existing standards are based on current knowledge, the Institute would develop standards based on intensive research and the combined talents of an assemblage of experts which States and localities cannot match. Local technicians, therefore, would no longer be required to develop their own standards, or, based on limited technical expertise, to make arbitrary choices among the wide range of standards of questionable technical validity now written into model codes or used to guide plans and regulations of other localities.

**(b) Preparation of a compendium of acceptable existing development standards**

The Commission recommends that Congress appropriate at least \$5 million to the National Institute of Environmental Sciences for the first stipulated project of the Institute. As its first project, not involving more than 3 years, the Institute should review existing standards such as those relating to the maintenance of minimum conditions for human habitation (including needs and comfort levels in terms of temperature, acoustics, and privacy); the facilities required for daily living; the development and conservation in the urban environment of land, natural resources, and facilities such as schools, parks, recreation areas, and utility systems; and the protection of man from negative environmental factors such as polluted air and water, noise, odors, and other factors which are nuisances or detrimental to daily living. Based on this review, it should prepare and issue (a) a set of technical standards for application in Federal, State, and local regulations, and (b) a compendium of acceptable guide policies (standards), including a range of alternatives if warranted, for those elements of development not normally subject to regulation.

The objectives of the project would be to codify and update the maze of uncoordinated standards in current use, and, as quickly as pos-

sible, to provide communities with urgently needed technical standards and a compendium of guide policies for controlling physical development.

It is intended that the standards incorporated in the proposed compendium would be based as much as possible on performance requirements, rather than specified materials and dimensions. The resulting flexibility would provide for innovations in planning and development which could increase the quality of the environment and/or reduce costs.

This recommendation, involving the first phase of the Institute's work, will provide the basis for the Institute's major tasks cited in the previous recommendation.

**Recommendation No. 2—Adoption of Technical Development Standards by Local Governments**

The Commission recommends that States adopt or amend enabling legislation as appropriate to require that every jurisdiction with the power to regulate physical development give full consideration in local regulations to all the technical development standards developed by the National Institute of Environmental Sciences.

There is an urgent need to overcome the lack of technically valid standards in local development regulations. Since nationally recognized standards would be available, States should encourage their use on as widespread a basis as possible.

**Recommendation No. 3—State Requirement of Single Local Comprehensive Development Code**

The Commission recommends that States amend enabling legislation to require that every jurisdiction with the power to regulate physical development shall prepare and adopt a single comprehensive development code. The code (a) shall embody current technically valid standards which reconcile local regulations relating to the physical environment; (b) shall be implemented by a single enforcement agency; and (c) shall provide for its re-evaluation, modification and updating to meet changing conditions.

The present irrational, piecemeal approach to local regulations is retarding progress in urban development. The profusion of regulatory instruments which have evolved one at a time for specific purposes cannot continue to be added to or patched up.

What is needed is one comprehensive code embodying all the standards by which a locality intends to regulate development. The proposed

code is a new concept unlike any one code or group of codes in current use. It would focus on all subject areas, all phases of the development cycle, and the entire locality. It would be divided into sections involving groups of standards related to one or more comprehensive objectives.

The Commission suggests that each State assist local governments by establishing a model format for a comprehensive development code.

The code is only a framework for standards, however. To be effective it must contain current technically valid standards, such as would be promulgated by the proposed National Institute of Building Sciences and National Institute of Environmental Sciences.

The Commission also recommends that a comprehensive development code should be based upon a comprehensive development plan embodying all local objectives for development. The code would be the legal expression of the plan. Complementary to the plan and code, localities also should establish a single set of procedures for guiding all development activities and for the guidance of all public and private developers. Thus there would be one basic plan, one basic code, and one basic set of administrative procedures.

Because extensive evidence has clearly shown that code administration and enforcement at the local level is plagued by lengthy delays, con-

fusion, overlapping jurisdictions, and contradictory directions by different officials within the same locality, the comprehensive development code must be administered and enforced by one local agency.

Establishment of a single local regulatory agency may not be accomplished easily or quickly. But such a mechanism will simplify the administration of local regulations to provide builders, contractors, design professionals, and property owners with one-stop service, and will eliminate duplication of services, inspections, and approval processes that now exist.

More than legislation is required, however. Although Commission recommendations would lift the burden of analyzing, testing and promulgating development standards from local technicians, the interpretation, administration and enforcement of the standards would remain the responsibility of local technicians and inspectors. State governments should assume the responsibility of providing technical assistance to communities seeking to improve the administration of development standards. State and local governments must provide in-service training to assure that employees are up to date with current standards in their respective fields of specialty and have a working knowledge of the broad objectives for local development. To retain personnel and to add positive recognition so sorely needed in the development field, salaries must be raised.





# Part IV. Government Structure, Finance, and Taxation

## CHAPTER 1

### Modernizing Urban Government Structure

The Federal Housing Act of 1949 stated as a major national objective "the realization as soon as feasible of the goal of a decent home and a suitable living environment for every American family. . ." Since most Americans live in or near cities, this means in large part a suitable *urban* environment. From direct observation, many hearings, and intensive research and analysis, our Commission is convinced: (1) That conditions in much of urban America fall far short of providing a suitable living environment; and (2) that remedial action urgently demands major improvements in the existing structure of urban government.

There are a number of compelling reasons why the improvement of urban government structure is an urgent matter. The quality of the urban environment depends heavily on services and facilities provided by local government. The rising needs and expectations of urban America have been outpacing local government performance, despite widespread valiant efforts evidenced by increasing levels of local public expenditure and taxation. Further drastic growth must be expected in the scale of local government, and with increased scale comes an increase in the complexity of problems. By 1985—only 17 years from now—the population of metropolitan areas will be up more than 50 percent from the 1960 level. During the same period, the population of metropolitan suburbia will have doubled. Inherited patterns of local government are a critical factor in the ability of local governments to deal effectively with increasingly large and complex problems. An uneven tax base among local governments, causing wide variations in local fiscal capacity; difficulties in coordinating public services; and diffused governmental responsibilities to the point of nonaccountability—these are among the consequences of structural weaknesses in urban government.

Present and prospective problems, then, cannot be met by local governments or communities in isolation from each other. Nor is the National Government equipped to deal with these problems directly. Our Federal structure, the vast continental spread of the United States, and the diversity of its urban areas all limit the direct role of Washington. The State governments, much closer to the local firing line, and with basic legal power over local government structure and financing, are in a more strategic position. However, most of the States also face other critical problems, and any effort they make to deal with urban government structure must somehow take account of the diverse conditions and attitudes of various communities.

Clearly essential, then, is a set of concerted and mutually reinforcing efforts involving all three levels of government—local, State and National. Such concerted efforts, drawing upon the adaptive capacity of our Federal system, must be made promptly and vigorously if public responsibilities for an acceptable urban environment are to be met. Accordingly, the Commission urges a number of major steps to achieve more viable urban government. Our major proposals call for:

- (1) State legislation to provide machinery for, and continuing assistance to, responsible local efforts to review and adjust local government structure in present and prospective metropolitan areas;

- (2) Federal legislation specifically to encourage and assist such State-local efforts toward basic analysis and improvement of urban government structure; and

- (3) State constitutional and legislative action to unshackle and improve existing institutions of local government by various means, including authorization and financial aid for metropolitan councils of government; authorization of county-subordi-



nate taxing areas; elimination of requirements mandating excessive numbers of independent elective county officials; provision of reasonable standards for new incorporations in metropolitan areas; facilitation of local annexation and consolidation actions; and drastic curtailment of State limitations on local taxing and borrowing powers.

Action along these lines is most urgently needed. Unless widespread vigorous, and effective steps are taken to civilize the existing jungle of local government jurisdictions, the Nation faces the prospect of a further and drastic centralization of governmental power and a possible smothering of the grassroots of American democracy.

Evidence in support of this conclusion is provided in the following pages which describe existing patterns of governmental structure (with special reference to metropolitan areas), summarize resulting problems, and review past efforts toward structural improvement. The Commission's proposals are stated and explained in the final portion of the chapter.

## THE NATURE OF METROPOLITAN AREAS

The U.S. Bureau of the Budget defines a metropolitan area as an integrated economic and social unit with a recognized large population nucleus.<sup>1</sup> As of 1967, the Budget Bureau recognized 228 such areas in the United States, calling them standard metropolitan statistical areas (SMSA's). Generally, an SMSA consists of one or more entire county areas that are primarily nonagricultural, and that are closely related to a central city, or cities, of 50,000 or more. (In New England, SMSA's consist of groups of cities and townships, rather than of entire counties.)

Nearly two-thirds of all Americans reside in metropolitan areas. About half of all metropolitan area residents live in the central metropolitan cities, but most of the increase in SMSA population is taking place in outlying-ring territory. A study of population trends done for the Commission indicated that by 1985 some 71 percent of all Americans will live in SMSA's.

Especially because SMSA's are generally defined in terms of whole counties, not all of their territory is closely populated. Most SMSA's include considerable territory that has only scat-

tered urban development.<sup>2</sup> Nonetheless, in terms of people and their occupations, the formal definition of SMSA's is focused on counties that are mainly nonagricultural and central-city-related.

Metropolitan areas range widely in population, from under 100,000 up to more than 10 million for the New York City SMSA. New England, where SMSA's consist of groups of cities and townships, has 23 such areas. The 205 SMSA's in the rest of the country are distributed as follows:

	SMSA's
1 county .....	100
2 counties.....	49
3 counties.....	27
4 counties.....	14
5 or more counties.....	15

There are 30 interstate SMSA's with a total population (in 1960) of 20 million persons, and also two broader standard consolidated areas, which are interstate in nature and altogether include six SMSA's. Adding these, one arrives at a total of 36 SMSA's with major interstate relationships. Altogether, these areas have 115 entire counties plus parts of 14 others (in New England); in 1960, they had over 41 million residents, or nearly one-fourth of the Nation's total population.

### Local government numbers and patterns

Metropolitan areas, as of 1967, were served by 20,745 local governments, or about one-fourth of all local governments in the Nation.<sup>3</sup> This means 91 governments per SMSA—an average of about 48 per metropolitan county, including in addition to the county itself, 12 school districts, 12 municipalities, seven townships, and 16 special districts.<sup>4</sup> But these aver-

<sup>2</sup> Census figures for 1960 indicate that, of the 310,000 square miles of land in SMSA's as then defined, less than 26,000 square miles were in their closely settled "urbanized areas" (consisting in general of the central cities and directly adjacent territory with at least 1,000 residents per square mile). Some SMSA's have sizable amounts of agricultural or even unused land. Perhaps the most striking example involves the San Bernardino-Riverside-Ontario SMSA; one of its two counties, San Bernardino, is the largest in the Nation, and includes several thousand square miles of mountain and desert land.

<sup>3</sup> By type as follows from U.S. Bureau of the Census, *Governmental Organization, 1967 Census of Governments, Vol. I:*

	Within SMSA's		Percent of U.S. totals
	Number	Percent	
All local governments.....	20,745	100.0	25.5
School districts.....	5,033	24.3	23.1
Other than school districts.....	15,712	75.7	26.4
Counties.....	405	2.0	13.3
Municipalities.....	4,990	24.1	27.6
Townships.....	3,255	15.7	19.0
Special districts.....	7,062	34.0	33.2

<sup>4</sup> The per-county averages cited are based upon data for the 205 SMSA's outside New England, in view of the different geographic basis of SMSA's there. The New England SMSA's average 29 local governments each.

<sup>1</sup> See U.S. Bureau of the Budget, *Standard Metropolitan Statistical Areas, 1967*. This source explains the criteria used to define SMSA's, and includes a detailed listing of such areas.

ages cover great variations. There are 20 SMSA's with fewer than 10 local governments each—13 in the South, five in New England, and two in the West.<sup>5</sup> At the other extreme are such SMSA's as Chicago, with 1,113 local governments (186 per county); Philadelphia, with 871 (109 per county); Pittsburgh, with 704 (176 per county); and New York, with 551 (110 per county).

The overwhelming majority of these local governments are relatively small. For example, two-thirds of the municipalities in SMSA's have a population of less than 5,000 and one-third of the total number have fewer than 1,000 residents. Similarly, of the 3,255 townships in SMSA's, over two-thirds have a population of less than 5,000. Most of the SMSA's special districts also involve only small-scale operations. Of all the school districts in metropolitan areas, about one-fourth have fewer than 300 pupils, and about one-third operate no more than a single school.

In terms of geography, many of the local governments in metropolitan areas are extremely small. For example, of all the municipalities in SMSA's about one-half have less than a single square mile of land area, probably 60 percent are smaller than 2 square miles, and four-fifths have a land area of under 4 square miles; i.e., corresponding to a square 2 miles on each side. Fewer than 200 SMSA municipalities include as much as 25 square miles of land.<sup>6</sup>

The local governments in metropolitan areas are administered by some 134,000 elective officials, including 87,000 members of their governing bodies (county governing boards, city councils, school district boards, etc.), and 47,000 other elective officials. Municipalities account for over 45,000 of the total number of elective officials—an average of nine per city. Elective officers average as follows for the various other types of local governments in SMSA's: 31 per county government; nine per township; six per

school district; and three per special district.<sup>7</sup> Thus, the average metropolitan county has nearly 350 elective local officials.

In most instances there is no direct relationship of boundaries between the several types of local governments in SMSA's. For example, less than one-fifth of the 5,033 school districts and only 13 percent of the 7,062 special districts within metropolitan areas correspond geographically to the area of a particular municipality, township, or county.

Most residents of metropolitan areas, then, are served by at least four separate local governments; i.e., a county, municipality, or township, and a school district, plus one or more special districts. The average SMSA central city has more than four overlying local governments.<sup>8</sup> Less layering and complexity appear in some SMSA's, but far more—ranging up to 10 separate overlying governments—occur in parts of other metropolitan areas.

### *Historical background*

These characteristics—multiple layers and generally unrelated boundaries—reflect the separate historical background of various kinds of local governments. The entire territory of most States is divided among areas served by counties, which developed mainly to carry out State-delegated responsibilities. In States that provide for public education through school districts, these units are also generally statewide in their total coverage; that is, no part of the State lacks such a local government "layer." Also, since the duty of providing free public education is usually vested constitutionally with the State itself, school districts resemble counties in having specifically delegated powers.

<sup>7</sup> Based on the following figures, from the U.S. Bureau of the Census, *Popularly Elected Officials of State and Local Governments*, 1967 Census of Governments, Vol. VI, No. 1:

Type of government	Elective local officials in SMSA's	
	Total	Members of governing bodies
All local governments.....	• 133,790	86,955
Counties.....	12,476	3,749
Municipalities.....	45,142	29,588
Townships.....	30,480	8,002
School districts.....	28,985	28,837
Special districts.....	17,668	16,779

• Total is less than the sum of type-of-government detail because some officials serve in a dual capacity (e.g., for both county and municipal or township governments).

<sup>8</sup> Of the 283 "central cities" of SMSA's, all but 32 also have a separate county government. Overlying these cities also, according to the 1967 Census of Governments, are 717 special districts and 324 independent school districts. Thus, even aside from the township units found also in a few metropolitan central cities, local governments serving these areas (including the municipalities themselves) number more than 1,550 or an average of 5.5 per city.

<sup>5</sup> New England's traditional primary reliance upon town or township governments, and the South's heavy reliance upon counties have tended to limit the proliferation of small municipalities and special districts in those areas. It is also common in New England and in some parts of the South for public schools to be provided by general-purpose governments (counties, municipalities or townships) rather than by independent school district units as is the prevailing pattern elsewhere. At the other extreme, the greatest complexity of local government structure is found in those states (mainly in the Midwest) which have townships and independent school districts as well as county, municipal, and special district governments.

<sup>6</sup> The text discussion of geographic size of municipalities is based mainly upon a tabulation of individual-area data appearing in the published series of individual-state *Area Measurement Reports* of the Bureau of the Census. Those reports include figures as of 1960 for all municipalities of 1,000 inhabitants or more. It has further been assumed here that substantially all of the under-1,000 municipalities have an area of less than one square mile. The 1960 Census of Population recorded only 177 municipalities with land area of at least 25 square miles; no doubt annexation activity has since increased this number to some extent.



In most of the States with town or township governments, these are typically comprehensive in total geographic scope, except that at least the larger incorporated municipalities are excluded.

The other two kinds of units—municipalities and special districts—developed differently and, unlike counties, school districts, and townships, do not add up to any comprehensive geographic coverage of particular States. The municipalities—cities, towns, and villages—were set up to provide for the additional public service needs of closely settled local areas: fire protection, sewerage, water supply, refuse collection, public health and hospital services, and the like. Special districts make up the most recent and rapidly increasing class of local governments. Their growth has been stimulated by various factors, including State limitations upon the financial powers of counties and municipalities, and in some instances other geographic or structural limitations of those governments. Although most special districts are relatively small, some have extensive territory; of the 7,062 such units in SMSA's, 323 are countywide and 527 operate in two or more counties. Unlike the other types of local governments, not all special districts have property-taxing powers; nearly half of those in SMSA's can raise revenue only by imposing benefit charges or special assessments, although they also have borrowing power, and can receive intergovernmental grants.

This is the factual background, then, for the increasingly heard comment that metropolitan local government is Balkanized, a patchwork, and a wilderness. For some metropolitan areas, this would be an exaggeration. However, it is clear that: (1) there is no one set of arrangements that might be viewed as the predominant "American" pattern of local government for metropolitan areas; and (2) local government arrangements found in most SMSA's are the product of historical tradition and patchwork changes. In very few cases do they reflect any concerted attempt to develop a comprehensive pattern of local government designed to deal effectively with modern conditions of metropolitan life.

#### *Why governmental diffusion matters*

Local governments can be characterized as typically small, overlapping, and duplicating. The question remains as to whether it matters enough to engage our best efforts to change the existing pattern. Perhaps the most forceful assessment of the problem in recent years was done by the highly respected, privately supported research group, the Committee for Economic Development. The CED's six-point

assessment of "why it matters" may be paraphrased as follows:<sup>9</sup>

- (1) Most local government units are too small to provide effective and economical solutions to their problems;
- (2) Extensive overlapping layers of government cause confusion and waste the taxpayers' money;
- (3) Popular control over local government is ineffective because of the excessively long ballots and the confusions caused by the many-layered system of government;
- (4) Policy leadership is typically weak, if not nonexistent;
- (5) Archaic administrative organizations are totally inadequate to the functional demands made upon them; and
- (6) The professional services of highly qualified personnel are typically not attracted to local government.

The same study generalized from these six points, with special reference to metropolitan areas, by stating that—

The most pressing problem of local government in metropolitan areas may be stated quite simply. The bewildering multiplicity of small, piecemeal, duplicative, overlapping local jurisdictions cannot cope with the staggering difficulties encountered in managing modern urban affairs. The fiscal effects of duplicative suburban separatism create great difficulty in provision of costly central city services benefiting the whole urbanized area. If local governments are to function effectively in metropolitan areas, they must have sufficient size and authority to plan, administer, and provide significant financial support for solutions to areawide problems.<sup>10</sup>

It has been questioned whether the numbers and layers really matter. After all, the argument goes, metropolitan areas are also served by many thousands of separate business establishments. Most of these, as in the case of local governments, are relatively small.<sup>11</sup> They also have developed "like topsy," without any comprehensive overall design. Yet altogether this great array of businesses give a high living standard for metropolitan residents. If multiplicity and unplanned evolution serve us well in the field of private enterprise, why not in local government in metropolitan areas?

The suggested analogy between local government and private business is a poor one. Many local government services involve important economies of scale; i.e., they can be carried out more economically (or can only be performed

<sup>9</sup> See Committee for Economic Development, *Modernizing Local Government, A Statement on National Policy by the Research and Policy Committee for Economic Development*, (July 1966), pp. 11-13.

<sup>10</sup> *Ibid.*, p. 44.

<sup>11</sup> There are over 3 million business establishments in the Nation (stores and wholesaling, service, and manufacturing establishments), or more than 40 times as many as the total number of local governments.

at all) above some minimum scale of operations. In this respect, local governments are much more like privately owned utilities that supply electricity, gas, and telephone service than they are like private business generally. Such private utility services are commonly provided in urban and metropolitan areas (on a regulated-monopoly basis) by a few firms, rather than by large numbers of separate competitive establishments.

Some efforts at local government reorganization have probably put too much emphasis on this matter of economies of scale. There are other even more important reasons why local government structure must reflect considerations differing from those that influence private business patterns. The regulative and policing duties of local government are uniquely public, because of their coercive nature. Also, some of the most costly services of local government, including education, health, and welfare activities, are of a social nature. These, as well as the protective functions, obviously cannot be provided on a consumer-choice pricing basis; they must be financed mainly from taxation and from borrowing that in turn is tax financed. But taxation is also coercive—a means for exacting a portion of private resources for public purposes. Thus, in lieu of the voluntary consumer-choice price system that applies to private business, government must and does rely heavily for its financing upon mandatory measures that must be applied uniformly, rather than being tailored in detail to the wishes or preferences of the individuals served or taxed.

If the coercive powers of government for regulation and taxation are to be responsibly exercised, they must be subject to control by the affected area or community. This purpose is served, of course, by provisions for popular election of officials, and requirements for their public accountability. But if officials are to be elected, and if taxes are to be imposed, these arrangements must apply to particular geographic areas. Thus, *local governments exist for particular defined areas* which differ significantly from the less precise trading or service areas associated with commercial establishments, *and governments must serve such areas in a socially responsive and accountable fashion.*

The case for order and simplicity in the pattern of metropolitan government is based, then, upon far more than the economy and efficiency argument. Local governments perform many services which differ widely in the minimum geographic or population size needed for their effective performance. If only operating economy were involved, public services in metropolitan areas might be supplied by having many separate sets of particular function units, with each set reflecting a scale of operation

suitable to the particular service involved. But such an arrangement would not provide means for: (1) determining how much money should be supplied by taxation for all local government purposes in particular areas; (2) determining how such resources should be allocated among various needed services; and (3) promoting coordination and cooperation among closely related public activities. Furthermore, such an arrangement would confront the voting citizen with the need to choose a vast array of officials to serve him with respect to many different services; in this situation public accountability and responsiveness would be more form than reality.

Such a specialized-function approach to local government exists to some degree, as reflected by school districts and special districts. Some proposals for the establishment of separate units to handle certain metropolitanwide functions run in this direction. The more traditional approach, however, involves reliance mainly upon such multiple-purpose governments as counties, townships, and municipalities. Each of these can, within its own range of responsibility, provide a means of weighing priorities and coordinating related activities. Also, where such a government is so large that some of its services can be provided on a decentralized basis, this can be done through such devices as police precincts, local health areas, and even neighborhood city halls—all without precluding larger scale or centralized handling of other functions that can be so performed.

At the time of development there was a reasonably clear division of functions among multipurpose governments. Counties and townships usually handled State-delegated services of the kind needed everywhere; and the municipalities, with more locally determined flexibility, assumed responsibility for the added public-service needs of closely settled communities. Even then, however, State laws were often used to set bounds upon competition for local tax resources through various types of tax-limiting provisions.

With urban sprawl and metropolitan development, the distinction between the conditions and needs of central and of fringe territory has diminished, and so has the demarcation between traditionally municipal responsibilities and those that might be provided on a larger area basis by county governments.

In the typical metropolitan area, then, each county government affords a device for determining priorities and fiscal allocations for services under its jurisdiction, and each municipality can also do this with regard to its particular functions. But no effective method exists for weighing the respective requirements of these two types of multipurpose governments against



each other, or against those of school districts and special districts. And there is no means for insuring that closely related activities of these various governments will be planned and carried out on a consistent and reinforcing basis, rather than in conflicting ways.

Pressures by local, civic, and business organizations and by acknowledged community leaders often are helpful. Also, cooperation among the officials of separate local governments—both informally and in a more organized fashion, such as through metropolitan councils of governments—is an important means for some coordination. Lacking, however, is any placement of responsibility—short of the State legislature and Governor—to promote coordination of interrelated services of local governments, and to set priorities for the financially competitive needs of various public services within the metropolitan area as a whole, or for any particular portion of it.

These seemingly abstract concepts may be more meaningful if considered from the standpoint of the ordinary citizen who thinks his local taxes are too high. With property taxes levied separately by three to six separate local governments, to which should his protest or inquiry be addressed?

Or consider the citizens or civic group concerned about some problem in a particular community. Perhaps the matter is clearly subject to handling by one specific unit of government. But where this is not the case and innumerable examples might be cited—the chances for delay, frustration, indecision, and conflict are multiplied. Illustrative of the kinds of problems involved are:

(1) Policing near schools (involving the school district and municipality—or, in suburbia perhaps county or township);

(2) The interrelated neighborhood effects of street cleaning and refuse collection, placement of schools and school playgrounds, placement and maintenance of public housing, location of clinics and welfare service centers (functions generally handled separately by municipalities, school districts, special districts, and county governments);

(3) Health care for schoolchildren, or the school's relation to community social welfare and recreation programs (involving school district, and municipality or county); and

(4) New roads, extensions of water and sewer lines, and land-use determinations (often involving county, special district and municipal governments, and perhaps even the State).

It would be vain to hope that structural change might end official conflict and indecision. As every President, Governor, mayor, and city or county manager knows, there is constant pressure within any multipurpose government for increased support of various services, and a continuous need to minimize functional overlapping or conflict. But generally today, the diffusion and layering of local government inhibits effective efforts to deal with its problems. Nobody can truthfully say, as President Truman said about the President's role in the executive branch of the Federal Government—"The buck stops here."

#### *Ways of "packaging" government services*

The desirability of having all or most urban government services jointly packaged under a single jurisdiction that is highly visible and definitely accountable to the particular community it serves seems clear. But this goal has little meaning until one considers the questions. What is the optimum community to be served by such a broad-purpose government within a metropolitan area and how to coordinate the interdependence of its life? Practically by definition, such an area is relatively large, with much diversity and specialization of economic activity, variety of land use and population density; and usually has a great deal of within-area communication, travel, and transportation. To take but one example: one might assume a metropolitan area served by only a half-dozen comprehensive local governments, each responsible for substantially all urban public services within its particular territory; it is clear that each such unit, in providing streets and highways, *must* take into account the highway layout of its neighboring local governments. Streets and roads have to connect, in orderly fashion.

But there is a great difference in the degree of geographic relatedness for various governmental services. This has led some thoughtful people to attempt a distinction between area-wide and local area functions, proposing that the former be assigned to a metropolitan unit of government while the latter are left with numerous smaller units. Such efforts generally result in the conclusion that only gradations of functional difference exist, so that objective and reasonable people would (and do) arrive at different proposals for what should be moved up to areawide government.<sup>12</sup> Such an approach also, of course, leaves unanswered the problem

<sup>12</sup> An excellent analysis of this subject appears in the report of the Advisory Commission on Intergovernmental Relations, *Performance of Urban Functions: Local and Area wide*. That source suggests seven criteria bearing upon minimum or optimum size for providing public goods and services, and discusses 15 governmental functions in the light of the suggested criteria.

described above as to the need for comparative budgeting and effective coordination between functions.

Another kind of proposal, then, would aim at the comprehensive packaging of local government services into a single unit to serve an entire metropolitan area. This approach seems especially attractive for metropolitan areas of small or moderate size (e.g., consisting of only a single county), especially those not immediately next door to another metropolitan area.<sup>13</sup> But for very large metropolitan areas, this approach immediately raises serious questions:

(1) How such a very large government can be really accountable and responsible;

(2) Whether the inevitable layering within it would add to costs and bureaucracy; and

(3) Whether some of our biggest cities, counties, and school districts do not already face serious difficulties of adaptation and responsiveness to the diverse needs of their component neighborhoods and communities.

The alternatives suggested illustrate the difficult conflicting purposes that must be kept in mind in any effort at the restructuring of metropolitan government; concern for localized as well as areawide needs; and means for responsiveness as well as for orderly planning, equitable financing, and effective coordination of related public services.

However, the choice to be made is not necessarily all or nothing; i.e., between one large comprehensive metropolitan government on the one hand, and the multilayered array of local governments on the other. It can easily be shown for example, that the overwhelming majority of municipalities in metropolitan areas fall far short, geographically, of embracing whole communities in any meaningful economic sense.

### *Mobility factor*

A Bureau of the Census study indicates that, of the employed persons living in the outlying (noncentral city) parts of metropolitan areas in 1963, more than one-half traveled at least 6 miles each way in their regular home-to-work journey, and four-fifths traveled at least 3 miles. Given the very small geographic size of most outlying metropolitan municipalities, it seems clear that only a small proportion of all suburban workers are employed in their own home-towns. Nearly all of them cross municipal boundaries to and from work, and many of

them travel each day through several municipalities.<sup>14</sup>

Other census data further emphasize the mobility factor. In large metropolitan areas, even for noncentral cities with a population of 50,000 or more, there is a high level of in-and-out travel between residence and place of work. In 1960, 49 percent of all the persons employed in sizable satellite cities came from a residence outside the particular satellite where they were employed. At the same time, 46 percent of the workers residing in these cities were employed outside the city boundaries.<sup>15</sup>

Such facts point up the limited meaning of the word "community" as it is often used with reference only to particular local areas where people reside and are counted for population-census purposes. Individual and family ties to such residential areas are understandably strong and important. But most people in metropolitan areas also have an important stake in the public facilities and services provided in areas where they work or visit. Furthermore, local governments in metropolitan areas must serve not only their resident nighttime populations, but also the differing daytime populations resulting from the ebb and flow of metropolitan activities. Yet when these local governments are very small in territory and population, only a limited part of the total population that each government thus serves has any voice in choosing the officials or determining the spending and tax policies that are involved. In turn, these scattered electorates lack an effective tie to the jurisdictions that so strongly affect them. In both directions, one finds taxation, regulation, service, and protection *without representation*. As was stated in a recent conference on local government problems:

\* \* \* The suburbanite is likely to have scattered and confusing civic ties. He looks to his particular outlying municipality for various services associated with his residence there. \* \* \* Usually, however, he must depend for public school operation upon an entirely separate unit of government, and the same may be true for certain other public services handled through special districts. Furthermore, for his daily trip to work and for similar journeys by other mem-

<sup>14</sup> See U.S. Bureau of the Census, *Passenger Transportation Survey*, Vol. 1, 1963 Census of Transportation, p. 64.

<sup>15</sup> Based on data presented in U.S. Bureau of the Census, *Journey to Work*, 1960 Census of Population, Volume PC (2)-6B. This source includes detailed cross-tabulations of employed persons by residence and place of work for each of the 101 SMSA's that had a 1960 population of 250,000 or more. It includes separate figures for municipalities of 50,000-plus. Of these SMSA's, 34 each had more than a single city of 50,000-plus. Thus, in addition to their respective largest central cities, these areas altogether included 84 "satellite" cities of over 50,000. The figures reported in the text pertain to these 84 satellite cities. For the 34 central cities of these areas, the proportion of resident workers employed outside averaged 10 percent, and the proportion of all workers engaged within the 34 central cities who were residents elsewhere averaged 28 percent.

<sup>13</sup> For example, the CED study cited in footnote 9, above, includes the recommendation that "In situations when a single county contains an entire metropolitan area, this committee recommends that a reconstituted county government be used as the basic framework for handling area-wide problems."



bers of his family, he depends upon the highway, traffic control, and parking regulation services of various other municipalities. \* \* \*

At his place of employment, and that of his wife or other working members of his family, fire and police protection, street cleaning and lighting and other essential services are usually provided by some government other than that which serves his home neighborhood and over which he has some influence by his local vote. Such alien units also control sanitary conditions in the restaurants where he or other family members eat lunch, or where they less frequently dine out. Those governments also generally police the areas and regulate many of the places of amusement visited by this suburbanite and his children. Typically also, the central city and sometimes other neighboring municipalities provide public recreational and cultural facilities which could not conceivably be made available by this suburbanite's own particular municipal government.<sup>16</sup>

### *Fiscal aspects*

Another problem of minute splintering of metropolitan area local government results from the wide range in fiscal capacity of small-area units. Taken as a whole, the typical SMSA has vast resources and productive capacity, usually a higher average level of personal income than that found in rural areas or non-metropolitan communities, and large private investments in taxable property. But these resources are not uniformly distributed, nor are they closely related geographically to the location of needs for local public services. Thus, when fiscal capacity is measured in terms of population (or public school enrollment, or some other measure of need) per available property tax base, great disparity will commonly be found among various local governments having parallel responsibilities. A range of 10 to 1 or more in relative fiscal capacity often appears within a particular metropolitan area.<sup>17</sup>

This situation provides incentives for intense competition among the many governments in metropolitan areas, extending sometimes to undercover tax or zoning favors designed to attract or retain business establishments. Even more widely one finds "fiscal zoning"; i.e., efforts to use local land-control powers in a way to attract economically "profitable" development and to restrict land uses (such as for low- or moderate-income housing) that might add relatively more to public service needs than to the tax base. The extreme result of such incentive may

be found in various metropolitan "tax islands" or industrial enclaves—small governmental principalities that have some large business establishments but few residents. These are able to operate with extremely low taxes because most of the public-service needs for families whose livelihood comes from a job in the tax-island area must be provided by other nearby jurisdictions.<sup>18</sup>

These incentives operate in a reinforcing rather than self-correcting direction. The local unit which can either operate with lower taxes or provide more and better services at a comparable tax rate has more potential appeal for further development than do competing units. Splintered governments thus operate toward increasing disparity in fiscal capacity, as well as toward narrow and parochial local policies of zoning, governmental service, and taxation.

Such variations and incentives do not entirely disappear, even in the exceptional metropolitan area that has a simple local government structure with relatively few separate jurisdictions. Under such conditions, however, the problem is likely to be far less serious. The several larger component areas will typically have some reasonable "mix" of economic activity and land use, so that their relative fiscal capacities will fall within a limited range. Furthermore, they are far more likely than tiny jurisdictions to contain enough social and demographic variety to generate internal forces against discriminatory zoning practices. And because special treatment for individual establishments is likely to have less benefit in relation to the larger tax base of such sizable areas, officials should be better able to resist pressures for improper favoritism.

In summary, from a fiscal as well as political standpoint one finds: (1) that the diffused pattern of local government in most metropolitan areas gives rise to many extremely serious problems and inequities; but also (2) that adequate dealing with these difficulties does not necessarily dictate some all-or-nothing type of reform; tremendous improvement could come even from structural changes that fall short of the comprehensive amalgamation of all local governments in each metropolitan area.

<sup>16</sup> See Proceedings of the National Conference on Local Government Fiscal Policy, in *Municipal Finance*, Vol. 39, No. 3, February 1967, p. 128.

<sup>17</sup> See Dick Netzer, *Economics of the Property Tax*, pp. 124-5, for examples of ranges in per capita property tax base: 15 to 1 among 91 municipalities in the Chicago area in 1957; 10 to 1 among 164 local units in the New York SMSA in 1959; 18 to 1 among Cuyahoga County municipalities in 1955-56; 32 to 1 among local units in northeastern New Jersey in 1960. While such comparisons are usually made by reference to taxable property values, similar results would generally appear if they were based upon personal income or business transactions, but the latter kinds of data are less generally available for small areas.

<sup>18</sup> Few if any "tax islands" are more notorious than Teterboro Borough, New Jersey. This municipality, with an area of 1.1 square mile and a resident population in 1960 of 22 persons, had a property tax base (equalized assessed values) in 1966 of \$69 million, or more than \$3 million per capita. Its four neighboring jurisdictions, each with several thousand inhabitants, had per capita tax bases that ranged from about \$8,000 to \$23,000—and each of them, most understandably, had a tax rate several times as high as Teterboro's.

The problem of tax islands is also illustrated in Cook County, Illinois. In 1964, among the 120 elementary grade-school districts in that County, there was a range of 30 to 1 in the property tax base per pupil—i.e., from \$243,000 down to \$8,200 per pupil.

### *Limiting the problems of governmental diffusion*

The question remains as to what can and should be done about governmental diffusion. Our approach will be to draw from the experience of various States and metropolitan areas to illustrate some of the most promising ways to deal with the complex problem. The listing below is illustrative rather than exhaustive. The various devices are interrelated in nature. However, they have been grouped under three headings: (1) structural—affecting the existence, area, or powers of various kinds of local government; (2) financial; and (3) coordinative.

#### *Structural devices*

The number of local governments in metropolitan areas may be reduced, or the responsibilities and relationships of various units may be redefined to minimize problems. First, it is instructive to examine the pattern of local government that would result in metropolitan areas if it were somehow possible, in each SMSA, to replace existing arrangements by a set of comprehensive units (of at least 50,000 persons) each responsible for all public services in its territory.

Such an arrangement can be tested by reference to 1960 population figures for the 228 SMSA's as defined in 1967.<sup>19</sup> On this basis, the metropolitan areas would have a total of approximately 1,300 local governments, or an average of less than six per area, as compared with the present average of 90 per SMSA. If thus reorganized, about one-fourth of the SMSA's would each be served by only a single local government, and nearly as many by two local governments each. At the other extreme, the approach would involve more than 30 governments for each of seven very large metropolitan areas:

58 for the Los Angeles-Long Beach SMSA (instead of 233);

55 for the New York SMSA (instead of 551);

52 for the Chicago SMSA (instead of 1,113);

46 for the Philadelphia area (instead of 876);

38 for the Detroit SMSA (instead of 242);

37 for the Pittsburgh SMSA (instead of 704); and

33 for the Boston SMSA (instead of 146).

Such figures are, of course, only illustrative. Any real effort at restructuring of local government would be carried out on an individual area basis. Furthermore, this example makes no allowance for areawide units that would probably be needed in major SMSA's. Under this mechanistic formula, each metropolitan area would have only a set of multipurpose governments serving various component areas. Nonetheless, the results of the exercise do show how greatly the present diffusion of governmental responsibility differs from a simplified pattern.

The structure of metropolitan government assumed for these calculations does not contemplate the creation of huge, remote entities; the prospective new comprehensive governments would average around 56,000 in population (as of 1960), with none of them over 100,000 when first established. The kind of pattern assumed for this exercise offers so many advantages that it could serve as a guideline for efforts toward structural improvement in particular SMSA's.

Structural devices<sup>20</sup> for limiting the problems of governmental diffusion that the Commission has found worthy of emphasis are listed below:

(a) Direct State performance (by original retention, or recapture) of some functions commonly delegated to local governments. Examples include: in Hawaii, public school operation, property tax assessment, and land zoning; in Kentucky, Virginia, and West Virginia, provision and maintenance of most local roads; in Florida and Virginia, most public health services; in numerous States, most public welfare services.

(b) Authorization for counties or townships to provide urban-type services for unincorporated territory. Availability of such power to townships in New England and to counties in various Southern States has helped limit proliferation of small municipalities and special districts in those areas.

(c) Provision of higher minimum standards of population and/or geographic area for new incorporations and special districts, at least within metropolitan areas. Action in this direction has recently been taken in Colorado, Florida, Kansas, New Mexico, and Oregon.

<sup>19</sup> The indicated count of "restructured" metropolitan local governments is based upon simple mathematical calculations for each SMSA: dividing by 50,000 the area's 1960 population residing outside cities of 50,000-plus to ascertain the maximum number of potential "new" county-city units, and adding this figure to the count of existing municipalities of 50,000 or more. In effect, this assumes that each present major municipality, as well as each prospective new comprehensive unit, would operate as a composite city-county, with responsibility also in its respective area for functions presently assigned to any school districts, special districts, and township governments.

<sup>20</sup> Most of the devices listed are recommended, or favorably discussed, often with extensive background information, in various reports of the Advisory Commission on Intergovernmental Relations. Successive annual reports of that Commission identify states where legislative action has been taken along the lines of its various recommendations on these and other matters.



(d) Review and supervision, through State or county boundary commissions, of proposed new incorporations and municipal annexations within metropolitan areas. Examples include recent action by California and Wisconsin.

(e) Explicit size classification of municipalities, with special limitations placed upon powers available to relatively minor units. This principle is applied in many States, and is also reflected in various reform proposals; for example, in the recommendation by the Advisory Commission on Intergovernmental Relations that zoning powers in metropolitan areas be reserved to counties and major municipalities only.

(f) State-authorized or mandated transfer of particular functions from municipalities to county governments.

(g) Subordination of some semiautonomous entities to counties or other general-purpose governments. Examples include: provision for dependent school systems associated with townships, or counties, instead of entirely independent special districts—a device used to some extent in 21 States.

(h) Establishment of major special districts to provide some services for a relatively large area, such as an entire SMSA or much of its urbanized territory. Examples include: the New York Port Authority, and various other sizable special districts; as of 1967, there were 527 multicounty districts in metropolitan areas.

(i) Simple and convenient procedures for municipal annexation of unincorporated territory. Examples include: annexation provisions in such States as Arizona, New Mexico, and Texas.

(j) Workable procedures for consolidation or merger of neighboring municipalities.

(k) Workable procedures for consolidation or merger of special districts performing similar functions, or for the replacement of existing districts through assumption of their duties by county or municipal governments. State legislation of this kind has been recommended by the Advisory Commission on Intergovernmental Relations.

(l) Authorization for major municipalities to exercise planning and zoning powers for adjacent fringe territory.

(m) Authorization for local governments to contract for joint or delegated performance of particular services. Examples include: pupil-transfer arrangement widely used by school systems, sometimes extending to the transfer of all pupils living in nonoperating districts; the Lakewood plan in Los Angeles County, where the county provides certain services on a contract-reimbursement basis for various municipalities; and numerous other specific

intergovernmental arrangements for joint-agency or delegated operations.

### *Financial devices*

Some of the methods that have been used or recommended to minimize the effects of fiscal disparities which result from the proliferation of local governments in metropolitan areas are listed below:

(a) *Intergovernmental fiscal aid*.—Included in this category are State *grant-in-aid* and *revenue-sharing* programs, and the relatively smaller programs of direct Federal-local grants. If the distribution involves a large portion of State financing—at least for poor or high-effort units—intergovernmental aid may considerably reduce the impact of local fiscal disparities. This is often the case for State educational and public welfare grants. At the other extreme in this respect are some State tax-sharing arrangements (e.g., Wisconsin's return-to-origin system for distributing part of its income tax revenue) that have little or no equalizing effect. Various other State-aid programs generally fall between these extremes.

(b) *County-distributed taxes*.—In every State, taxes imposed for school purposes by local school-operating units are supplemented by State grants. About one-third of the States also make some use of another financing device—*countywide* taxes, of which the yield is distributed on a *per-pupil* or other formula basis to the school-operating units. In most instances the amounts involved are relatively small, but in six States, in 1962, they supplied at least one-tenth of all local school revenue. Since educational costs typically make up a considerable part of all local public spending, this kind of arrangement can help considerably to even out local variations in fiscal capacity. Its equalizing effect, however, applies only within individual counties, rather than having the statewide equalizing effect of State-local grants.

(c) *Local nonproperty taxes*.—All municipalities and most counties obtain some revenue from licenses and other nonproperty taxes. In recent years, local nonproperty taxes have grown in relative importance. This has resulted in good part from the development of systems by which municipalities or counties can impose a piggyback rate for addition to State-collected sales taxes. Whether in this way or directly through locally collected nonproperty taxes (such as *payroll* or *earning taxes*, used locally in a few States), the result is to reduce, at least relatively, local reliance on property taxation. Such a shift will not necessarily help to overcome differences in fiscal capacity among minor jurisdictions in a metropolitan area. For example, local areas that are relatively rich from

the standpoint of taxable property are also likely to rank high in retail sales volume, but the correlation is not perfect; payroll or earnings taxes especially may involve a rather different geographic incidence than property taxes. However, such taxes in the metropolitan context encounter the difficult question—What is the revenue claim of the jurisdictions where earners live as against the claim of the jurisdictions where they work?

(d) *Benefited-user charges.*—Some services provided by local government can be financed at least to a considerable degree from charges upon the persons they benefit. This approach has little relevance for some of the most costly public services, such as public education, welfare, police protection, fire protection, and public health activities. Benefit charges, however, are widely used to finance *water supply, sewerage, refuse collection services, public parking facilities, publicly provided transit services*, and to some degree *public hospital care*. To the extent that user charges can substitute for taxation, the need mentioned above for direct comparative budgetary balancing of various public services may be less urgent. Also, the burden for support of services that are entirely charge financed applies geographically according to the location of the persons served, rather than upon a specific taxable area. In these ways, charge-supported services may be better candidates than other local government services for assignment to separate special purpose units, if that seems desirable from the standpoint of efficiency. However, such separation may still be highly undesirable because of close interfunctional relationships; for example, between charge-financed water and sewer operations and land zoning; between parking facilities and local highways and traffic control; and between refuse collection and street cleaning.

#### *Coordinative devices.*

Several means which have been widely used or urged to limit conflict or competition or to stimulate coordination among independent local governments in metropolitan areas are listed below.<sup>21</sup> The listing does not include some other significant devices aimed at effective coordination *within* particular governments, such as the short ballot (limiting the number of elected administrative officials), effective budget systems, and the employment of professionally trained administrators.

(a) *Metropolitan councils of governments.*—Stimulated by Federal financial help and cer-

tain grant-in-aid requirements, COG's have recently been organized in several score metropolitan areas. Made up of representatives chosen by and from elective officials of local governments (primarily counties and municipalities) each such COG provides an organized forum for discussion of programs and problems of areawide or intergovernmental concern. Employed staff prepares comprehensive metropolitan plans and related studies, and means are available for the conduct of various facilitative services (such as employee training or joint purchasing).

(b) *Metropolitan planning agencies.*—Although some metropolitan area or metropolitan-county planning bodies had previously been in existence, many more have been stimulated by Federal enactments of 1965 and 1966. Where responsible to a metropolitan COG made up of representatives of elected local officials, each planning agency has a mandatory review power (but no veto) over applications made by local governments for Federal grants and loans for a wide variety of projects. Additional aid is available if the project promises to be carried out "in accord with metropolitan planning."

(c) *Technical assistance relationships.*—State governments have traditionally provided guidance and help to local governments with respect to particular services—schools, roads, health, property tax assessment, and the like. In most States, for example, a county school superintendent serves as an intermediate agency for coordination of local public education. More recently, these function-oriented relationships have been supplemented, in about half the States, by an agency for urban affairs or community affairs, responsible more broadly for technical aid to local governments. Direct Federal-local relationships have been less common, and in the past have also mainly concerned only particular functions. Recently, however, especially in aid-related efforts such as the poverty program, economic development grants, and the Model Cities program, more attention is given to the close interrelationships among various public services within urban and metropolitan areas.

Understandably, in view of the complex problems involved, none of these ameliorative devices has provided a dramatically effective solution to the difficulties encountered with governmental layering and diffusion within metropolitan areas. Most of them involve some limitations or drawbacks, along with potential advantages. For example, some observers have questioned whether councils of governments can be expected to overcome selfish parochial

<sup>21</sup> This enumeration does not deal with (1) reorganization activities pertaining only to school districts, or (2) major adjustments of local government structure involving particular metropolitan areas. Those subjects are discussed under "Lessons from Successful Efforts."



attitudes of constituent minor governments.<sup>22</sup> Some coordinative control can be exercised by metropolitan planning agencies over proposals for various federally aided projects and some local public improvements. However, such coordination relates only to capital outlays and does not directly affect current operations of local governments.

Many of the devices above involve some curtailment in the freedom of action of nominally independent local governments. Even when generous intergovernmental grants give more financial elbowroom, this is likely to involve control relationships limiting the autonomy of the aided units. Thus, at least three major questions need to be asked about most such ameliorative efforts to deal with the problems of governmental diffusion in metropolitan areas:

Will they really have the desirable results intended in particular instances?

Will such benefits be outweighed by offsetting disadvantages; for example, such impairment of autonomy that "local self government" is more mythical than real?

Will actions that merely patch up an inherently poor situation tend to delay the accomplishment of the more basic structural improvement that is urgently needed.<sup>23</sup>

#### *Obstacles to major structural reform*

Despite the need for a simpler and more rational pattern of local government in metropolitan areas, there have been few *important* developments in this direction. A marked reduction in numbers of school districts has taken place (as discussed below under "Lessons from Successful Efforts"), but the total count of other kinds of local governments has increased by more than one-fifth between 1942 and 1967, and much of this change has involved metropolitan areas. During this 25-year period, only a handful of city-county or intermunicipal mergers have occurred in such areas, and more basic structural reforms have been similarly few. It may be useful, then, to consider why the

record of major change is so discouragingly sparse.

One major factor, surely, is the use of various kinds of stopgap devices, or ameliorative actions such as those described above. For example, the proliferation of special district governments has served to make available needed urban-type services in the suburban portions of many metropolitan areas—often as an alternative to the geographic expansion of major municipalities, or the provision of such services by county governments. New State and Federal programs of fiscal aid have helped to even out local fiscal disparities, and some of these programs have included pressures toward better coordination of planning and operation among separate local governments. Increased use has also been made, as already noted, of large area special districts for the provision of some kinds of local government services.

Another limiting factor has been the understandable statewide orientation of State governments. It is no accident that all or nearly all of the recent major changes in local government structure in metropolitan areas have occurred in the South. In that region, it is generally possible or even customary for the State legislatures to enact local laws of a sort commonly barred by constitutional provisions in other parts of the country. Accordingly, it has generally been more feasible in the South than elsewhere to obtain needed State action focused directly upon the unique problems of particular areas where there was strong local backing for change.

A related factor, of course, has been the marked lag in adjustment of State legislative representation to the rapid urbanization trend of recent decades. Drastic changes on this score have been stimulated by the Supreme Court's one-man-one-vote decisions, beginning in 1962. As is well known, prior to these developments, in many States suburban voters (and in some instances major city voters also) were grossly underrepresented in the legislature.

Another factor discouraging structural reform is the sheer complexity of the inherited pattern of metropolitan local government, in conjunction with the durability of public institutions. The very concept of full faith and credit debt reflects this latter element; such debt involves the pledge of a government's resources, including the use of its taxing power, for debt service. These and other local government bonds ordinarily run for an extended time period; once a complex set of such obligations has developed, extremely difficult problems are likely to be involved in adjusting them (and the rights to related public property holdings) to a simplified pattern of local government. Again, in this respect, it is probably no ac-

<sup>22</sup> For a summary review and thoughtful appraisal of recent developments with regard to metropolitan councils of governments and metropolitan-area planning, see Joseph F. Zimmerman, "The Planning Riddle," *National Civic Review*, April 1968, pp. 189-194. A more detailed earlier study, *Metropolitan Councils of Government*, was prepared by Professor Royce Hanson of American University for the Advisory Commission on Intergovernmental Relations, and issued as an information report of that Commission in 1966.

<sup>23</sup> Many examples could be cited of "patchwork" approaches to local government problems. For example, in many States the proliferation of special districts can be traced in large part to onerous constitutional or statutory limitations upon borrowing powers of counties and municipalities. Legislative action took the form of authorizing separate units to "get around" such limitations, rather than removing or loosening the limits. Again, it seems clear that basic reorganization of local school districts in Pennsylvania was delayed for many years by laws there which stimulated and supported the halfway device of "jointures"—school systems operated on a contract basis for groups of legally separate school districts.

cident that the most notable recent changes in governmental structure in metropolitan areas have involved southern counties where, at the outset, there was a relatively far simpler and less layered pattern of government than that often found elsewhere.

Even where major structural changes have been proposed and voted on, the voting outcome has often been unfavorable. A study by the Advisory Commission on Intergovernmental Relations reviewed 18 efforts at local government restructuring in metropolitan areas which involved local referendums between 1950 and 1961, to see how various community interest groups were lined up. Eight of the 18 proposals were popularly approved; two others received an overall majority but failed to receive all the separate majorities required; the other eight fell short of even a total majority vote. Support for restructuring efforts generally came from community elements concerned with the area as a whole or with the central city; e.g., metropolitan news media, the League of Women Voters, business groups, central city officials, and academic groups. Opposition was most commonly and strongly voiced by outlying area elements: residents, county and suburban government employees, and officials of fringe area local governments. In some instances, groups such as volunteer firemen played a strong opposition role.

Any major overhauling of local government structure in a particular metropolitan area is likely to involve damage to some existing interests; for example, by potential leveling of tax burdens, or elimination of some traditional public offices. Those adversely affected can often enlist support from many others who merely fear the uncertainty of change, or who instinctively prefer known evils to unknown possible new problems. Moreover, as the ACIR study emphasized, any particular reorganization plan must compete for favor with not only the *status quo* but also with possible alternative kinds of change. To quote:

\* \* \* The task of the would-be reorganizer is not merely to arouse public concern with existing conditions that are undesirable \* \* \* but also to be prepared to demonstrate that his proposal is better than any available alternative.<sup>24</sup>

The ACIR study also found that most of the reorganization efforts analyzed were up against a largely apathetic public. Typically, only one in four persons of voting age cast ballots on the proposals involved.

City-county consolidation proposals provide an even more striking measure of the difficulties involved in achieving major structural

change. The four successful city-county consolidations occurring before 1900 had one thing in common. Each was accomplished by legislative act, not by affirmative vote of the people concerned. From 1900 to the end of World War II, every effort to bring about a city-county consolidation was unsuccessful, from a 1923 Seattle effort to a Jacksonville-Duval County effort in 1935. A partial consolidation in Baton Rouge and East Baton Rouge Parish (County) occurred in 1947, but the period 1950 to 1962 was marked by a series of failures in consolidation efforts. Twelve such proposals went down to defeat during this period. Finally, two successful consolidations occurred in Nashville, Tenn., and Jacksonville, Fla., in 1962 and 1967 respectively. These efforts are discussed in some detail below.<sup>25</sup>

One might ask whether efforts to change local government structure have not in some instances suffered by overemphasis upon efficiency or economy, rather than upon the need for understandable accountability and responsiveness of local government. The dearth of meaningful data by which operating economy can be soundly measured further inhibits such efforts.

In reviewing the limited record of recent attempts at significant restructuring of local government in metropolitan areas—the handful accomplished and also the unsuccessful efforts—one feature stands out: each was primarily a local undertaking, initiated and pursued uniquely in the area concerned, even though basically authorized by State constitutional or statutory provisions and sometimes, especially in the South, involving specific State action. This record is consistent with the propositions that every metropolitan area has its own particular problems and attitudes, and that major structural changes should enlist the active interest of the local public directly affected by them. The generally passive role of the State, however, seems hardly consistent with four other facts: (1) That State constitutional and statutory provisions are responsible for much of the present diffused and layered pattern of local government; (2) that the States themselves are often hampered (e.g., in arrangements for fiscal aid and in promoting various functions of statewide concern) by present conditions; (3) that a major and growing proportion of the people in most States reside in metropolitan areas; and (4) that extensive local governmental restructuring in such areas is likely to call for some explicit State action of at least an enabling nature.

Thus, the traditionally passive stance of the State governments is badly out of date. The

<sup>24</sup> Advisory Commission on Intergovernmental Relations, *Factors Affecting Voter Reactions to Governmental Reorganization in Metropolitan Areas* (Summary of Report M-15), September 1955, p. 9.

<sup>25</sup> John C. Bollens and Henry J. Schmandt, *The Metropolis: Its People, Politics, and Economic Life* (New York: Harper and Row, 1965), pp. 428-434.



widespread failure of States to play a vigorous and innovative role with regard to the structure of local government in metropolitan areas has been a major factor in the limited record of accomplishment to date. This conclusion is supported by experience with school district reorganization, in which the States *have* played a significant role, as discussed below.

### *Lessons from successful efforts*

#### *School district reorganization*

By far the most significant widespread change in local government structure during recent years has involved the reductions in numbers of school districts—from more than 108,000 in 1942 to less than 22,000 in 1967. This trend has been widespread, involving all the States that formerly had large numbers of school districts. The number of States with over 2,000 school districts has been cut from 15 in 1952 to one in 1967. While rural areas have been especially involved, metropolitan areas have also participated: the number of school districts in present SMSA's dropped from about 9,000 in 1957 to 5,033 in 1967. All this contrasts so sharply with the general trend toward proliferation of other kinds of local governments that it is useful to ask: What factors have made school district reorganization widely feasible while other efforts at restructuring have been few and faltering?

At the outset, it is useful to summarize present patterns. Public schools are state administered in Hawaii and partly so in Alaska. Elsewhere, three patterns of local school systems predominate:

(1) *County-related*—involving 12 States (10 in the South and two in the West), with all or most school-administering units either countywide or largely so (e.g., with units for major cities and balance of county areas);

(2) *Township-related*—involving nine States, with most school systems related to township or town and city areas, and in many instances directly tied to those governments;

(3) *Special-area districts*—involving the other 27 States, where most school systems consist of areas differing from those of other types of local governments.

School system arrangements in States with county-related and township-related patterns in most instances took their present form in the 19th century, generally by mandatory State legislation, and have since involved relatively few changes. Most school reorganization of recent decades has involved the other 27 States, where school systems are still relatively numerous (though far less so than in the past), averaging 699 per State as against 106 per State for the

county-related, and 357 per State for the township-related group.

Various approaches have been used to accomplish widespread reorganization of school districts in most of these States. In some instances, the State role has been relatively passive; i.e., with legislation that authorized, but did not specifically require, any reorganization efforts locally. However, even in these instances state grant formulas sometimes have provided a financial incentive for the establishment of larger school-administering units. More commonly, there has been legislation (enacted by at least 18 States since 1941) that specifically required some local steps toward school reorganization. Such legislation has typically required that each county set up a committee to analyze existing school system arrangements, and develop a proposed reorganization plan to be submitted to the voters for approval or rejection. Requirements for adoption differ from State to State. In some cases, a simple majority of the total vote cast will suffice, but others require separate majorities in towns of more than a certain population. Some State laws provide that if a reorganization proposal does not pass, the county committee shall continue to function to prepare and submit another proposal. Local studies and reorganization efforts under such legislation have generally had technical help from staff of State offices of education.

In general, the obstacles to extensive revision of urban government structure resemble those that have confronted school system reorganization. In each instance there is likelihood (or at least some fears) that particular interests and local areas will suffer. In fact, it is hard to imagine a significant reorganization that does not materially impair the position of some taxpayers, public employees, elective officials, or service beneficiaries. However, several factors have probably tended to make school district reorganization—with all its difficulties—more feasible than the substantial restructuring of local government units in major urban areas has been. Such differential factors include these:

(a) Public education is widely recognized (often constitutionally) as mainly a State responsibility. While this is also increasingly the case for welfare, health, and some other local services, it is emphatically not so for most other functions of local governments, particularly those provided only in urban areas. Thus, there is a strong precedent for explicit State controls over school system structure, and considerably more State financing of educational costs than is the case for other elements of local government—giving the State both a special stake and potential leverage in the public school field.

(b) The need for school reorganization has appeared initially and most obviously in thinly

populated areas, which often account for only a minor part of a State's population. On the other hand, proposals for legislation relating mainly to governmental structure in metropolitan areas may expose many State legislators to strong pressure from opposing interests.

(c) The public school function is far less diverse in its makeup than the numerous functions handled in metropolitan areas by nonschool governments. It is easier, then, to measure and compare public school needs, offerings, and fiscal requirements than to develop such evidence for the far broader spectrum of other local government services.

(d) Elective officials are likely to be a more serious obstacle to urban government reform than to school district reorganization. Most elective officials of nonschool units receive pay (full or part time), while schoolboard members predominantly do not; nonschool officials are far more numerous and they are more likely than school board members to be active in political parties.

(e) Existence of a large group of teachers and educators, with at least much of its leadership in favor of school reorganization, has been a favorable factor. For other urban governments and services, however, there is far more diversity; leadership and groupings tend generally to center on particular functions or particular types of governments. It is possible, in fact, that the strongest resistance to major restructuring may appear where organizations of municipal and county governments, as such, have been especially vigorous and effective.

(f) Most States with numerous school districts have also had an intermediate level of responsibility—a county board and/or school superintendent. This provided a potential instrument for planning and promotion of structural change. Aside from the recently developed councils of governments, there has been no corresponding substate instrumentality to serve as a continuing point of leverage toward governmental restructuring in metropolitan areas.

(g) Similarly, until the recent development of offices for urban or community affairs in a number of States, there has generally been no central point for State promotion of urban government restructuring.

For all these reasons, and perhaps others, it would be overoptimistic to assume that methods effectively applied to school district reorganization would be similarly successful in widespread basic restructuring of local government in metropolitan areas. Nevertheless, the school reorganization record does demonstrate at least four points:

(a) The need for direct, affirmative, State government action, taking account of the States'

major stake in having responsible, effective, and adequately financed local governments to serve their expanding metropolitan areas;

(b) The value of some official mechanism to stimulate local attention to problems of existing governmental structure, and to develop specific recommendations for changes appropriate to the particular conditions and attitudes of various areas;

(c) The need to recognize the close relationship between structural and financial problems of urban local government, and to use fiscal aid programs as one element in any concerted effort toward desirable structural change; and

(d) Perhaps above all, the need for institutional arrangements that might help to assure continuing attention to the development and maintenance of a desirable pattern of local government for major urban areas, rather than only sporadic or one-shot efforts in this direction.

#### *Particular area accomplishments*

Among the handful of successful efforts at metropolitan government restructuring that have occurred in recent years, two are especially noteworthy—the establishment of city-county governments centered in Nashville, Tenn. (adopted in 1962), and Jacksonville, Fla. (in 1967). Although differing in background, these two efforts were similar in many important respects. Each involved a county area of about a half-million population, with a large central city and relatively few outlying municipalities. Each area also had few other local governments. Each effort required specific legislative action as well as local referendums. And each proposal finally received a majority of "yes" votes from both central-city and outlying-area voters. These areas also resembled each other and many other central metropolitan counties in major population characteristics; most of their recent growth had taken place outside of the central city boundaries, and a much higher proportion of Negroes were living in the central cities than in outlying fringe territory.

The main thrust of each of these successful efforts was to deal with the "layering" problem discussed above—particularly by merging the respective county and central-city governments.<sup>26</sup> In each instance there are some exceptions to complete amalgamation of previous

<sup>26</sup> The city-county pattern developed for Nashville and Jacksonville resembles that adopted in 1947 by state constitutional action and local referendum for Baton Rouge-East Baton Rouge Parish, Louisiana. There are various other places also where the customary overlapping of county and municipal governments does not exist: throughout Connecticut and Rhode Island, which have no county governments, and for all the "independent cities" of Virginia (including all major municipalities in that state), as well as some major cities elsewhere. Of the 45 largest cities in the Nation, 13 are served by city-county governments. Most of these arrangements resulted from state constitutional or legislative action in the 19th century, generally without any local referendum vote.



governments, including the retention with limited powers of a few small outlying municipalities. However, each of the resulting city-county governments is responsible for the bulk of all local government activities within its respective area (although the Jacksonville-Duval school system, with an elected board, apparently has more legal autonomy than the school system of Nashville-Davidson).

Intensive advance study and planning, followed by effective efforts at civic education and promotion, were involved in each of the reorganization efforts. The plans submitted for referendum included some specific provisions designed to allay fears of adverse effects upon particular groups; for example, provision for retention of certain separately elected administrative officials and carryover of employment rights for government personnel. Also, each plan provided for: (1) A relatively large governing body for the new city-county government, with a majority of members selected on a district basis (in Nashville-Davidson, 35 from districts and five plus the presiding "vice mayor" at large; in Jacksonville-Duval, 14 from districts and five at large); and (2) differentiation of property taxes to apply within and outside of urban-service district portions of the county; this to take account of the additional services, such as fire protection, street lighting, sewerage, street cleaning and refuse collection, provided for the urban service districts.

These two features, according to informed local officials who testified before our Commission, undoubtedly contributed a great deal to popular acceptance of the reorganization proposals.

#### *Prospects for metropolitan restructuring*

The likelihood of widespread major changes in local government arrangements within metropolitan areas appears dim indeed if one takes account only of the scanty record of past accomplishments on this score. However, more optimism about the prospects for change is justified by numerous factors, including those described below.

#### *Intensity of problems*

The difficulties that result from diffusion and layering of local government have been increasing and can be expected to spread and grow. Some of the factors compounding the problems include—(1) the rising needs and expectations for local government services, outpacing general economic growth and requiring higher taxes;<sup>27</sup> (2) the rapid geographic spread of urbaniza-

tion in metropolitan areas, and the growing interdependence of life within them; (3) stubbornly increasing fiscal and social disparities in metropolitan areas, not only between central-city and fringe territory as a whole but among various parts of the fringe area;<sup>28</sup> (4) the growing inadequacy of stopgap arrangements for urban services through various types of special districts; and (5) reduced opportunity for adjustment through municipal annexations as incorporated places grow directly together.

#### *Public awareness*

Until recently, concern for the problems of local government structure has been largely limited to political scientists and "do-gooder" civic groups. Even where specific restructuring efforts were undertaken, as indicated by the 1962 review by the Advisory Commission on Intergovernmental Relations, they often encountered a seemingly apathetic electorate. But concern and discussion have been spreading outside academic halls. Noted newspaper columnists now frequently emphasize the relationship of "the urban crisis" to local government structure. Articles on the subject have appeared in popular magazines. Business groups such as the U.S. Chamber of Commerce and the Committee for Economic Development have issued studies in this field, and are strongly urging that the State governments and particular communities take action.

Public awareness has also been stirred by the problems of poverty, segregation, and civil rights, so explosively reflected by recent unrest and disorder in many cities. Such problems do not directly promote popular desire for restructuring local government; in fact, for at least some people the initial effect may be just the opposite, adding to their distrust of change. More widespread awareness of the so-called urban crisis, however, should surely tend to overcome public apathy about governmental conditions in major urban areas and provide a more attentive audience for those who feel that structural changes are essential.

#### *State and Federal Government developments*

Many factors have been increasing the official concern of the States with governmental struc-

<sup>27</sup> Between 1950 and 1966—gross national product increased 160 percent—local taxes rose 243 percent, local government general expenditure 266 percent, and local government debt 312 percent.

<sup>28</sup> For the Office of Economic Opportunity, the Bureau of the Census has analyzed 1960 Census findings to delineate the "poverty area" portions of the metropolitan areas of over 250,000 population. The poverty areas consist of groups of census tracts that rank relatively low in terms of a composite index covering family incomes, educational background, family stability, employment, and housing conditions. Poverty areas within the central cities of these largest SMSA's have far more residents than the outlying poverty areas. However, the proportion of all land area that is found within poverty areas averages about the same, nationally, for the central-city and fringe-area portions, and in 29 of the 101 SMSA's there is an even higher proportion of poverty-area territory outside than within the central city.

ture in metropolitan areas. These include: increased urbanization and suburban expansion; legislative reapportionment; and pressure for larger State fiscal aid to local governments to help meet needs that arise in part from the fractionated tax base of metropolitan areas. Similar influences have been felt by the Federal Government. At both levels, there have been efforts to deal with some of the problems of atomized metropolitan government. Numerous States have set up new agencies for urban affairs; many have expanded their planning and development services; some have tightened provisions that permit new small municipalities and special districts to come into existence, or have taken other steps to slow or reverse governmental diffusion. The Federal Government has provided financial incentives for metropolitan councils of governments, and has also been groping toward better coordination of inter-related programs it assists. The expansion of grants to local governments makes more evident the need of the States and the Federal Government to deal with viable units at the local level, and by fiscal leverage, to stimulate local efforts toward desirable restructuring.

#### *Adjustment of objectives*

There are signs, also of more realism and sophistication by the proponents of structural reform. With some areas of the country growing together into large megalopolises, earlier all-or-nothing arguments for the creation of a comprehensive local government to serve each metropolitan area have somewhat subsided. There is also greater awareness of the problems of civic participation and identification that may confront extremely large local governments. Recent comments emphasize the need to tailor structural change proposals to the characteristics of particular metropolitan areas, and, where possible, to build upon inherited patterns; for example, by city-county consolidation, even where such action might involve several major governments for a particular metropolitan area, rather than only one comprehensive entity.<sup>29</sup>

#### *Mechanisms for change*

It is sometimes said that the historical rigidity of local government structure reflects a strong attachment by most of the public to inherited patterns. Yet, school district reorganization has received widespread popular accept-

ance—because an effective State-local mechanism offered the voters a choice between the status quo and a planned alternative. Because of the general lack of any such mechanism to develop tailored plans for metropolitan government restructuring, and the complexity of the problems and issues involved, the public has had no such option on this score. Only when there are effective means to develop and propose explicit alternative forms for metropolitan local government will the public actually have a choice, and the popular acceptability of major change be subject to accurate assessment.

#### *Inter-area learning*

Often, innovative methods, first demonstrated in one area, are adopted by others; e.g., many States' school reorganization programs of the past 3 decades.<sup>30</sup> It is reasonable to hope that even a limited number of breakthroughs which clearly improve local government structure in particular metropolitan areas will stimulate other efforts.

Altogether, then, it would be unduly pessimistic to judge the prospects for basic restructuring of local government in metropolitan areas by the limited record of accomplishment thus far. However, the need for change is too urgent to permit complacency, and the issues and problems involved are so complex as to merit concern by responsible officials at local, State, and Federal Government levels, as well as increased attention from the general public.

### **Recommendations**

In the light of the background given in the preceding pages, the Commission offers three major recommendations for action toward more viable urban government, as stated and explained below.

#### **Recommendation No. 1—Machinery for structural change—A road to local self-determination**

The Commission recommends that State governments promptly set up effective machinery to improve local government structure in present and prospective metropolitan areas. As a minimum, each State should:

- (a) Assign to an existing or newly-created State agency a specific mandate to: (1) analyze existing conditions and

<sup>29</sup> Emphasis on various kinds of approaches to restructuring appears in reports of the Advisory Commission on Intergovernmental Relations and in the local government study sponsored by the Committee on Economic Development (cited in footnote 9, above). Various reasons why counties should be used increasingly to meet the local government needs of metropolitan areas are summarized in excerpts from a presentation by Bernard F. Hillenbrand, Executive Director of the National Association of Counties, in the *National Civic Review*, April 1968, pp. 212-13.

<sup>30</sup> Many instances can be cited of the intergovernmental spread of institutional and fiscal devices. An early example involved Benjamin Franklin's successful promotion of a public fire department for Philadelphia, based on his observation of a Boston system. Numerous constitutional and statutory provisions have been largely "copied" from state to state. Other more recent widespread developments have included: state budget systems and structural reforms; the city manager plan; state and local accounting systems; state grant-in-aid programs; state registration and licensing of vehicles; and various tax provisions, such as state income and sales taxes, local payroll taxes, and authorized local supplements to state sales taxes.



problems of governmental organization in metropolitan areas; (2) prepare proposals for appropriate State constitutional and legislative changes; (3) aid official local commissions established in particular areas to develop governmental reorganization plans; and (4) provide special technical assistance to local governments in areas where reorganization plans are adopted, to help insure an orderly transition to the revised system.

(b) Provide procedures for the establishment of temporary local commissions to appraise and prepare explicit recommendations concerning governmental structure in particular areas; require that such commissions be set up for each metropolitan area, and that they prepare and publish their findings and recommendations within some specified interval; and provide funds to finance the work of such local commissions.

(c) Provide workable procedures for prompt official action upon recommendations for restructuring of local government that are developed by local commissions for particular areas, with adoption either: (1) by State legislative action, subject to cancellation before the effective date by local referendum; or (2) directly by local referendum, with the results in either case determined by a majority vote of the entire area affected.

State action of this nature would make available to the residents of metropolitan America an opportunity they now substantially lack—to exercise a choice between inherited patchwork patterns of local government and an alternative arrangement responsibly planned in the light of conditions within particular areas. A significant precedent is available from the joint State-local area efforts that have been so successful in school district reorganization.

### WHY A LOCAL-STATE AGENCY?

This recommendation is based on the assumption that the States have a major stake in the viability of local government in major urban areas. In most States, a majority of the population lives in metropolitan areas, and this proportion is growing everywhere. Furthermore, the States are largely responsible for present problems of urban government structure, and major change is likely to require some specific legislative or constitutional action on their part. The recommendation also assumes that the traditionally passive and patchup tendency of the

States with regard to urban government will not meet the increasingly critical problems involved.

Because of the diverse conditions and attitudes of various areas, as well as the crucial importance of local self-determination, structural reform cannot and should not be provided by direct State imposition of blanket changes. On the other hand, the historical record shows all too clearly that isolated and sporadic local efforts cannot apply to this issue the momentum it so urgently needs. Moreover, since inherited governmental arrangements are generally similar among the major urban areas of a particular State, an approach considered desirable in one such metropolis may well be found useful for others in the same State.

### *Geographic coverage*

We recognize that serious problems of local government structure exist widely for rural as well as major urban areas, and that recommendations for State legislation often cannot be specifically limited in their scope to metropolitan areas. At least in highly urbanized States, therefore, it may be desirable for the proposed agency assignment to be statewide in its prospective coverage, and for the machinery which is provided for local study commissions to be available to all parts of the State. Generally, however, we believe that the proposed State-local program for structural improvement should apply only, or initially, to present and prospective metropolitan areas, or major urban counties. Such a limitation should minimize the range of problems involved and focus attention upon sections where proliferation and layering of local government are most serious.

The established Federal concept of metropolitan areas (SMSA's) is extremely useful for many purposes, including the summary and comparison of data for major urban communities, as presented in various parts of this report. The areas thus defined offer a convenient reference point for States enacting the type of program proposed here. However, individual States may well wish to take account of prospective future metropolitan areas as well as present ones, or to use some alternative standards of coverage to ensure that additional populous counties are included. Another optional factor is the extent to which local charter commissions may be authorized specifically on county lines or for larger areas. The county has typically been the basic geographic area for the school reorganization efforts mentioned above, and a similar approach may be suitable for many metropolitan areas. However, where larger metropolises are involved, provisions should be made for areawide commissions.

### *Placement of State agency responsibilities*

A State agency concerned with urban governmental structure should be equipped both to develop recommendations for relevant legislation and to assist and advise local commissions dealing with this subject in particular areas. The former task can, in many instances, draw upon studies carried out by the respective State central legislative research agencies and other special or interim commissions. However, focusing of responsibility for this subject matter should help to increase the concerted attention it receives and the chance for greater consistency in State policies and programs affecting urban government.

About half the States have recently established a department or agency for urban or community affairs. One principal duty of such agencies is to provide technical assistance to local governments. Specific responsibility with regard to urban government restructuring may well be assigned to such agencies, subject to one important qualification. The suggested concern for urban government reorganization demands a future-focused, exploratory, and innovative emphasis. This is unlikely to be appreciated by local officials dealing with day-to-day problems, with whom it is obviously important for the State agency to maintain effective working relations. Thus, if current technical assistance and the proposed duties concerning urban government structure are put under the same agency roof, a definite effort should be made through internal organization and specialized staffing to limit the chance that the two kinds of assignment might be mutually damaging.

### *Local study commissions*

States will need also to devise appropriate standards of size, composition, and selection for the proposed local study commissions. Such commissions might best be limited to persons chosen by local popular election, preferably on an equal-population-district basis; but inclusion of a limited minority of members appointed by the Governor and, perhaps, by the mayor of the central city and by appropriate county officials, may be found advantageous. We believe, however, that ex officio membership by incumbent local government officials or employees should definitely not be authorized. While effective performance by the study commissions may depend heavily upon sympathetic interest and counsel from incumbent officials, their direct membership could well create serious problems of divided loyalty.

In view of the complexity of problems involved, the proposed local study commissions should be given sufficient time (perhaps 1 to 2 years) to carry out their duties, including allow-

ance not only for background research but also for orderly consultation with interested community groups and appropriate public hearings. For the same reason, and in view of the States' strong concern for competent local efforts, we urge that fully adequate financing be provided by State appropriation for such study commission. Any costs that might thus reasonably be incurred would at most represent but a tiny fraction of the large sums going into urban government operations. In other words, the size of the stakes involved—financially as well as from the standpoint of the general public welfare—merit an intensive and adequately supported undertaking. It should not be necessary for the study commissions to cut corners or to seek private financial help in order to carry out their assigned functions.

The States may wish to consider, for the proposed local commissions, a provision that has been used in some State programs for school district reorganization. Under that provision, when a particular school reorganization plan fails to receive popular acceptance by referendum, the study commission does not go out of existence. Instead, it has the duty of preparing and submitting an alternative proposal. Such an arrangement, it can be argued, should limit delays, effort, and cost that would be involved in starting completely from scratch where perhaps only modest changes in the plan first submitted are necessary to make it publicly acceptable.

### *Adoption of reorganization plans*

We are proposing that structural plans developed by local study commissions be adopted either by direct State legislation (subject to pre-effective-date cancellation by local referendum), or specifically by local referendum, and that in either event approval should not require separate favoring majorities by subordinate parts of the area concerned.

There is ample precedent for direct State legislation of this nature. The boundaries of practically all counties in the Nation, and of most of the limited number of city-county governments, were set by State constitutional or legislative action, without being dependent upon individual area referendum votes. The same is true for the county area school systems that prevail in a number of States. Most such State actions occurred in the 19th century. It seems strange that, with today's far greater population and complexity of government, there should appear to be widespread suspicion of structural action by responsible elected representative bodies, and a yearning for direct democracy under conditions which make such an approach even less feasible and desirable than in earlier days.



Our recommendations that any local referendum action stand or fall by a single overall majority rests primarily upon the proposition that inherited local government patterns are not sacrosanct, and do not merit special legal protection. Prospects for significant change would be effectively stifled by requiring separate majorities for all existing local jurisdictions. This is amply evidenced by the near zero record of spontaneous merger of neighboring municipalities under permissive State laws; by similar evidence from school reorganization arrangements of a few decades ago; and, for that matter, by the disastrous effects of the unanimous consensus rules under which the old League of Nations tried to operate. Less fatal would be a requirement for separate central city and remaining area majorities; various urban reorganizations efforts have surmounted such a hurdle. But such a requirement also should be avoided if possible—not only because it would obviously load the odds heavily against prospective change; but also because it would tend to encourage the divisive we-and-they attitudes which already plague so many metropolitan areas. The provisions that apply to local governmental restructuring should be designed to reduce rather than to recognize and encourage such cleavages.

There is a far better way—consistent with American traditions of government at every level—to take account of the legitimate interests of various parts of a major urban area for which governmental restructuring is at issue. That is to make sure that the body preparing recommendations is geographically representative, so that attitudes of various subordinate areas can be adequately considered. In turn (as suggested by experience with the recent Nashville and Jacksonville reorganizations), this is likely to result in a proposed governmental form that also provides specific representation for various component parts of the entire area.

#### *Problems of transition*

We have urged that the State agency concerned with urban governmental structure have the duty of providing technical assistance to local governments where reorganization plans are adopted, to help ensure an orderly transition to the revised system. This proposal is of major importance, in view of the complexity in most metropolitan areas of inherited patterns of governmental indebtedness, property rights, fiscal relations, and operating responsibilities. Uncertainty about how much relationships can be justly unscrambled is without doubt a major barrier to basic restructuring of local government in many areas. This uncertainty needs to be reduced, and orderly and equitable means of

adjustment need to be provided. The city-county governments recently installed in Nashville and Jacksonville were to supplant relatively simple (though unsatisfactory) earlier structures. Even they, however, have faced extremely difficult problems of transition, which would be even more complex in many other metropolitan areas. Clearly, the States should provide backup help to deal with the pressing requirements for orderly and equitable transition.

#### **Recommendation No. 2—Improvement of local government arrangements**

**To encourage intensive reexamination, and, where found desirable, the improvement of local government arrangement in major urban areas, the Commission recommends:**

**(a) That Congress promptly adopt legislation under which, beginning 5 years after its enactment, the eligibility of local governments in any metropolitan area to participate in Federal grant programs would be contingent upon there having been completed, within the preceding 10-year period, a comprehensive official study of local government structure within the area, carried out either directly by the State or States concerned or by a public agency authorized by State law to carry out such a study, and including the publication of findings and recommendations; and**

**(b) That Congress promptly amend section 701 of the Housing Act of 1954 so as specifically to authorize Federal aid under that section for the financing of official studies of governmental structure in metropolitan or major urban areas that are undertaken by State agencies or in accordance with State authorizing laws.**

This recommendation takes account of the strong interest of the National Government in having a viable set of local governments in major urban areas. It is intended to provide a direct incentive to States and metropolitan communities to make an intensive review of their inherited urban government arrangements, along the lines proposed in recommendation No. 1, and to underwrite from Federal resources a part of the costs of such State-local efforts.

#### **NATURE OF THE NATIONAL INTEREST**

Most Federal intergovernmental expenditure is to help finance public services in metropolitan areas. While the bulk of this money is paid in the first instance to State governments, a

rapidly growing portion (nearly \$2 billion in 1967) consists of direct Federal-local grants paid under numerous separate programs. The bewildering layers of local governments in most metropolitan areas create tremendous difficulties for these aid arrangements. For example, the fiscal capacity and effort of particular local governments cannot be reasonably measured without attention also to other units which overlay them in various ways. Most federal-local grants, therefore, do not rely mainly on objective formulas (such as are extensively used in Federal-State grants), but are on a particular-project basis. This multiplies paperwork and the opportunity for intergovernmental frictions, with attendant charges of favoritism and detailed Federal "domination." Similarly, the prevailing local separation of responsibility for various interrelated services is a serious obstacle to the desirable grouping of Federal aids for such services.

More basically, the widespread failure of local governments to keep pace with urban area needs and expectations for essential public service—stemming partly from the diffusion of responsibility among numerous small and layered local units—has created a strong pressure toward *direct* Federal provision of services which it is poorly equipped to supply.

On both these grounds, the Federal Government and the Nation as a whole would have much to gain by widespread simplification of local government structure in major urban areas. But the specific nature of restructuring must properly be left for State and local determination, in view of the diverse conditions and traditions of various parts of the country, and the States' constitutional responsibility. Accordingly, this recommendation would not make continuing Federal aid contingent upon any particular structural arrangement or even upon specific legislative action or referendum votes. Rather, the suggested incentive is to stimulate intensive locally-focused studies and recommendations, with the expectation that these will lead to desirable basic change, at least in many instances.

#### *Timing provisions*

Part (a) of this recommendation refers to two time intervals. As proposed, the potential penalty with regard to local grants would first be effective 5 years after enactment of the law. This delay, of course, is intended to allow ample time for widespread State-local action. We are also suggesting that grant eligibility be contingent upon a local structure review undertaken within the previous 10 years. This proposal is designed to recognize the prospect for further rapid change in metropolitan areas,

and the resulting need for periodic basic re-appraisal. It thus resembles the requirement found in some State constitutions that the public be given a chance periodically to decide whether a new constitution should be drafted for popular consideration.

#### STEMMING LOCAL GOVERNMENT DIFFUSION— LEADERSHIP FROM THE STATEHOUSE

The foregoing recommendations aim mainly at extensive fundamental restructuring of urban government. Even if they are acted upon soon, as we deeply hope, it will be several years before they produce widespread effects. Meanwhile, increasing urban government functions and costs and further metropolitan growth will mean still more governmental diffusion and layering.

This is a dismal prospect. But it also is a challenging one—particularly to the States, which in large degree have the legal capacity to stem the prevailing trend toward further Balkanization of urban government.

Thus, we see no need to choose between prospective *long-range basic restructuring efforts* as proposed in the foregoing recommendations and *various actions that promise more immediate impact*; there is a need for *both*. From inherited institutions in some States, steps undertaken recently in others, and certain major proposals of the Advisory Commission on Intergovernmental Relations, one can observe key elements for a desirable program that should help to deal with certain increasingly urgent conditions without damaging the prospect for more basic future changes.

#### Recommendation No. 3—Actions by State governments

The Commission urges that the State governments take the earliest possible action, by legislation or, if necessary, by the amendment of their constitutions to—

(a) Authorize and help finance effective councils of local governments in present and prospective metropolitan areas;

(b) Permit counties to provide urban-type services through subordinate "service areas" with appropriate means of financing, where this is a feasible alternative to independent special districts;

(c) Eliminate provisions requiring numerous independent elective county officials which diffuse responsibility and prevent effective control by county governing boards.

(d) Eliminate onerous tax and debt limits which so impair the capability of municipal and county governments as to



stimulate the creation of separate special district units;

(e) Review and revise laws concerning special districts to facilitate their merger, dissolution, or "taking over" in appropriate cases by county or municipal governments;

(f) Enforce minimum-size standards for proposed new municipalities, at least within present and prospective metropolitan areas; and

(g) Provide flexible procedures for annexation of territory by municipalities, intermunicipal mergers, and functional transfers between municipalities and counties.

Not all of these actions are called for in every State, but most of them are widely and urgently needed.

## METROPOLITAN COUNCILS OF GOVERNMENTS

As already mentioned, numerous metropolitan councils of local governments have been created during the past few years. When such bodies meet certain conditions, they qualify for Federal aid and can exercise a significant role in areawide planning. We believe that those States which have not yet done so should move promptly to authorize such councils, and to participate in their financing.

Such action is *not* offered as a substitute for steps toward more basic restructuring of local government in metropolitan areas, which we have specifically urged in Recommendations 1 and 2 above. As was stated by an official of one such body in testimony to our Commission:

As a voluntary association of governments, rather than a government itself, our organization and others like it must rely on persuasion and on the achievement of consensus as a means of implementing its decisions. \* \* \* Few political scientists and few public administrators would \* \* \* argue seriously that the voluntary council of governments as we now know it is a device which can provide the ultimate solution to our metropolitan problems.

However, he continued:

[Such observers also would] point to the fact that councils have for the first time opened up channels of systematic communication between the central city and its suburbs \* \* \* to the improved coordination which councils have brought about in the attack on regional problems; and to the fact that increasingly councils are showing their desire to deal with the tough problems which have brought themselves so forcefully to our attention during the past 2 years.

Some citizens would argue that this is not enough. And it is true that it is only a beginning. But, we would all agree, it is none to soon to begin.<sup>31</sup>

In similar vein, another qualified observer expressed the following views:

One of the most hopeful aspects of the councils is what appears to be, at least among a number of them, the capacity to evolve from a sort of defensive league of municipalities and counties against activity by the State, or anybody else that might get them to do something, into institutions which begin to have a vested interest in the prerequisites of local governments when it comes to handling regional problems \* \* \*.

So for the short term I would argue that our choice is not between councils of government and general regional government, which I also tend to look favorably towards, but rather between councils of government and ad hoc approaches through special districts.<sup>32</sup>

As a minimum, then, metropolitan councils of governments can provide a politically feasible instrument to promote communication and cooperation among neighboring governmental jurisdictions. Basic structural reform should, over time, provide an even better basis for areawide action in many SMSA's. However, especially for very populous metropolitan areas and those which cross State lines, there will still be a need for the type of voluntary cooperation and coordination which councils of governments are intended to promote.

### *Strengthening urban counties*

In most of the Nation, there has been relatively little use of the county, in modernized form, as an alternative to the proliferation of additional layers of minor governments in urban-fringe territory. Our proposals are designed to remove various State-legislated obstacles to that approach, such as: requirements for areawide uniformity of county taxes; excessive numbers of elective county officials; and onerous tax and debt limitations.

Recent court decisions that extend the one-man-one-vote principle to local governing bodies promise an early end to the rotten borough conditions that have made many county boards unrepresentative. But the average county still has about a score of separately elected administrative officials who are often substantially independent of the county board. State action is needed to eliminate such intracounty dispersion of responsibility, or at least to allow a more workable framework. While such a change would also be desirable for rural counties, it is of particular importance for urban counties.

### *Municipal size standards*

In many States, statutory provisions for new incorporations date from an era when most settled communities were widely scattered, so that it was not unreasonable to permit the creation of a separate village or town for even a few hun-

<sup>31</sup> Testimony by Walter Scheiber, Executive Director of the Metropolitan Washington Council of Governments, *Hearings Before the National Commission on Urban Problems*, Vol. 5, pp. 454-56.

<sup>32</sup> Testimony by Royce Hanson, Professor of Government and Public Administration, American University, *Hearings Before the National Commission on Urban Problems*, Vol. 5, p. 462.

dred people. But the traditional minimum-size standards are irrelevant and potentially damaging for today's prevailing pattern of urban development, which mainly involves territory around sizable cities. At worst, they permit the creation and maintenance of tax havens, and at best, they often spawn nonviable units that have little relation to the economic framework of the urban area as a whole, and obstruct efforts toward an improved governmental pattern. The States should promptly revise their laws so as to prevent the creation of very small municipalities within metropolitan areas, or in proximity to sizable present cities. Existing conditions will be hard enough to modify: metropolitan areas already have 2,700 municipalities of under 2,500 population, most of them covering less than a square mile; it is high time to end further proliferation of this nature.

#### *Other proposals*

Additional background concerning the various types of state action we are urging appears in early portions of this chapter, and with more detailed information in reports of the Advisory Commission on Intergovernmental Relations. The main thrust, throughout, is to increase the

capability and flexibility of the two additional major types of multipurpose local governments—counties and municipalities—so that they may better meet the needs of modern urban life.

Had the States widely and effectively taken such action two decades ago, the recent near-explosion in numbers of special purpose districts would not have occurred, and problems of local government Balkanization would be far less serious than they now are. Our proposals for State review and adjustment of laws concerning special districts should not be viewed as a blanket condemnation of this device. It has met needs that could not otherwise be served, and will continue to have a potentially useful role. This is clearly the case where a metropolitan area includes several counties and large municipalities. In such a case, a limited-function metropolitan district would be an appropriate device. A desirable long range policy for urban government, however, will surely aim at only selective use of such separate units, and the maximum possible grouping of local public responsibilities under viable, relatively comprehensive, multipurpose governments.



## CHAPTER 2

### Urban Services: Steps Toward Neighborhood Regeneration

As our cities have grown larger, and as governmental services have become increasingly professional and specialized, the psychological distance from the neighborhood to city hall has grown from blocks, to miles, to light-years. With decreasing communication and sense of identification by the low-income resident with his government have come first apathy, then disaffection and now—insurrection.

Lack of widespread citizen participation in municipal government in our large cities contrasts with the situation in many suburbs. The affluent or middle-class suburbanite may not involve himself regularly, but he is at ease with his local government. He knows he can influence it; he knows how to get things done (or stopped), and with this potential participation comes a sense of pride and protectiveness toward the instruments of local government. Thus, one of the fiscal and political competitors of the central city—the small and affluent suburb—can count upon citizen participation while the government of the city, beset with eroding resources and rising revolt, can count less and less upon the interest and loyalty of its people.

We believe it necessary and urgent to take immediate steps to reverse the disastrous rise in alienation between big city government and its disadvantaged citizens. We must revitalize the neighborhood; we must contribute to the citizen sense of self-respect and self-reliance; and we must open a two-way communication between the poor and city hall or the county building.

#### THE OVERWHELMING CHANGE

The figures presented in part I of this report show the great change in the character of our Nation, from overwhelming rural to predominantly urban, especially in the last half-century.

What the shift from country to city has meant for the people involved is an overwhelming, continuous upheaval. The Negro in particular has had a difficult time in his move to the city, has found the traditional immigrant ladders out of poverty restricted, both because of his

color and because he has made his migration in the last few decades, when the physical growth of the city has slowed, and the job market for unskilled labor has declined. Nor has he been able, in most cases, to move beyond the city line to where the jobs for the unskilled increasingly are located. For many Negroes, the slums which were only ports of entry for America's earlier immigrants have become prisons.

The Negro's problem is the most severe, but cities are still attracting immigrants from other ethnic groups as well, notably Puerto Ricans, Mexican-Americans, and white Appalachians. Their problems are the same in kind if not in degree, and in some pockets, or in some cities—for example, in the Puerto Rican areas of Manhattan—there is no distinction in levels of misery.

The pace of immigration to the cities is slackening now; there are, compared to earlier days, so few left on the farms that they cannot supply the same flood of emigrants as in the past. The suburbs probably attract what national migration there is; not only from rural areas but even from the older central cities. The natural increase from the excess of births over deaths keeps the population of the central city at a steady high level, in spite of this loss to the suburbs.

Part I also stressed, however, the separation of low-income (especially nonwhite) residents and upper-income residents, into different political jurisdictions. The handicaps that deprivation causes are visited on many of the children of the earlier immigrants by the fact of isolation in one political jurisdiction—the central city.

#### *Breakdown of the family*

Thrown into the city to sink or swim, the poor family begins to show the strain of continued inability to get work. The institutions that in other societies have played a cementing role have been tested to their utmost, and sometimes cannot meet the need.

The church in rural society has always played a dominant role in creating socially acceptable

behavior patterns. But families that had remained together in rural areas found other influences working on their children in the crowded slums. Many parents from rural areas, who continued the strict observance of their religious beliefs, have become estranged from their children, who now think of them almost as religious fanatics. Many families were unable or unwilling to change their values in terms of child rearing, and now have much less influence on the children's behavior, or have lost them to the street entirely.

Elementary and secondary *schools* have been unable to cope effectively with the changing neighborhood population, particularly in terms of the special needs of the new residents. In an average-size school, teachers may be able to work constructively with pupils; in inner-city schools of overwhelming population, where the children's own personal problems are added to those of instilling an education, the staff must spend much of its time and energy acting like wardens rather than teachers. Moreover, in some of New York's classrooms, 50 percent of the pupils born in Puerto Rico are unable to speak English. The majority of teachers cannot speak Spanish. Barriers like these are not confined to New York but operate also in Boston, Washington, Los Angeles, and wherever the Puerto Ricans, Cubans, and Mexican-Americans have arrived.

Another alienating factor may be associated with the high turnover of residents in the inner city—even under normal conditions, unrelated to urban renewal or code enforcement. High turnover characterizes the modern suburb, too—all America has become more mobile than it was 20 years ago. However, suburban families tend to wait till the end of the school year, whereas the principal of an inner-city elementary school in Washington, D.C., once estimated that 40 percent of his student body at the end of the school year were new children. These children had replaced others, entered in the fall, whose families had simply picked up and moved to another school zone, or out of town entirely. In those neighborhoods of hard-core deprivation, in his opinion, there is no community. The children on the block may know each other, but the mother usually knows just one or two people.

#### *Alienation from the city government*

What this indicates is the detachment of the low-income resident from his own local government. While great changes have been occurring in racial and ethnic residential patterns, local institutions too often have plodded along with little response, becoming less relevant to the

problems and needs of the new residents of the neighborhoods.

#### *Discrimination in city services*

It is often said that slums are expensive for the city administration. Usually, this cost reflects high welfare, police, and fire department activity. In other normal services, however, such as schools, garbage and trash removal, snow removal, street surfacing and repair, replacement of old and inadequate water and sewer lines, the slums are usually at the bottom of the list.

Large cities have great problems in keeping the streets clean, but in the slum neighborhoods sanitary conditions are often intolerable. Practically all are characterized by junk- and garbage-littered lots, abandoned cars, broken bottles and scattered debris. Cleanup campaigns have been mobilized among local residents, often with good immediate results, but the lack of sustained followthrough by the city usually frustrates these local efforts, and the citizens lose hope of keeping their area neat.

#### *Lack of ability to express needs*

The processes and techniques of problem solving are obscure to the majority of ghetto residents, who seldom have had the opportunity to participate in civic and political affairs.

Observers have speculated that much of the organizational turmoil in the ghetto today reflects the decades of political vacuum in central city neighborhoods. The director of a study of *Local Community Structure and Citizen Participation* undertaken for this Commission feels that rioting and acting out behavior may be the functional equivalent of community organization for the most frustrated groups in our society.<sup>1</sup>

#### *Distance from city hall*

The sheer size of the larger cities today has made it difficult for neighborhoods to develop an effective relationship with the city government. Neighborhoods discover that city departments of sanitation and public works, the school system, the public welfare department and so forth are accountable not to the people they serve but only to the city administration. As a result, the personnel of these departments can, and frequently do, ignore local complaints about existing services and suggestions for improvements.

Even public social agencies have not always served their clients well, partly because, it is widely felt, their attitudes are skeptical and

<sup>1</sup> *Local Community Structure and Civic Participation*, a report by the National Federation of Settlements and Neighborhood Centers under the direction of Arthur Hillman, for the Commission, 1968; Chapter V, p. 4.



suspicious. Such an approach, in turn, may well arise because of the anxiety of the public servants in their employ to avoid spending the taxpayer's money on handouts to the undeserving poor. However, as columnist William Raspberry has pointed out, the handout renamed the subsidy, or support payment, is not unknown to the large corporate farmer with excess land, to the owners of oil wells, or to the builders of ships and planes.

#### *Alienation within the city*

The neighborhoods in the cities were unable to absorb comfortably the numbers of new immigrants, white and black, who arrived from rural America. By the end of one decade, a one-family house sheltered three families; by the end of another, the same house was cut up into single rooms and contained 12 units. The flood of people overwhelmed the old schools and the existing welfare and medical services.

#### *Assimilation failures*

Moving into nonwhite ghettos, Negro immigrants could find relatives or friends from back home with whom they could socialize. This taught them a great deal about the ghetto but very little about the city. Pockets of white Appalachians provided similar havens, but rarely aided the new families from the hill country to adjust to city life.

The concentration of nonwhites within the city has been shown in part I. Middle-class as well as lower-income Negroes have been forced to remain in the central cities, middle-income families on the outer fringe of the slum, seeking better housing as its income rises, and the lower-income family in the inner core, suffering more acutely the effects of unemployment, deplorable housing, and the lack of city services. Even upper-income Negroes who have achieved professional, economic and political status frequently remain part of the ghetto, the identifiable and clearly bounded area of solid Negro residence.

#### *The Cuban refugee resettlement program*

By contrast, what can be done to help immigrants adjust to a new life was described to the Commission during its hearings in Miami in August 1967.<sup>2</sup> By extension, this could apply to the deprived rural immigrants as well.

Between the time of the Castro revolution in Cuba in January 1959, and the October 1962 cutoff of direct flights from that island, Miami received 1,800 refugees per week. The schools and public services were inundated, and by late 1962, counting the potential refugee labor force

of 50,000, the unemployment rate in Miami/Dade County neared 10 percent. A massive humanitarian effort was mounted by the Federal Government to cope with this flood, and to assist metropolitan Dade County in coping with the problem.

Each family receiving public assistance was individually interviewed, and interviewed again by one of four national volunteer agencies concerned with resettling Cuban refugees. More than half had been moved out across the United States by the time the second wave of immigrants, relatives of those already here, began in September 1965. Two-thirds of these later refugees are women and children, and all arrive destitute. They are given a medical examination, and three-fourths of them leave for other U.S. communities without even setting foot in Miami proper.

The following elements appear to have made the program so successful; their possible application to the urban immigrant problem is indicated:

(a) *Insistence on resettlement.*—The director of the Cuban refugee program told the Commission:

A firm policy was established and implemented by my office calling for the loss of financial assistance eligibility by any Cuban who refused a reasonable offer of resettlement. \* \* \* A Cuban refugee is not given financial assistance simply because he is in need. He has to be both needy and unresettlable—for the American you would substitute unemployable. \* \* \* I mean, we don't force any Cuban to leave Miami. We try to sell them on the job and try to convince them that this is the best thing for them to do. This, I think you could do.

(b) *One-hundred percent Federal funding, and popular support.*—Congress has supported the program with adequate funding since it began. The director also noted consistent support by the Conference of Governors, the fullest cooperation of State and local governments throughout the country, and a vast outpouring of good will toward the refugees on the part of Americans everywhere.

The director noted that the Federal Government had spent about \$1,000 on aid, retraining, and relocation, per refugee; an amount probably matched by monetary and material aid from the private sector, and commented:

I think this emphasizes a basic principle. One has to spend money to obtain solid and effective results in this field as in other fields \* \* \* a concentration on training programs cost money but the amounts expended came nowhere near the amount we would have had to expend on providing welfare services to 75,000 refugees rather than to the 12,000 we ended up with.

(c) *Coordination at all levels.*—A task force established in Washington worked with all the agencies involved, through liaison officers. In Miami, according to the director, we have had a

<sup>2</sup> *Hearings Before the National Commission on Urban Problems*, Vol. 3, p. 333ff, Superintendent of Documents, U.S. Government Printing Office, Washington, D.C., 1968.

multi-purpose service center or, if you will, an ersatz neighborhood center from the very beginning of the program. The entire family was taken into consideration from the start, with attention to the health problems of every member as well as the training and employment needs of the breadwinner. The center itself offers English language and vocational training, tailored to meet the labor needs in areas of resettlement.

(d) *Involvement of the private sector.*—In relocating the family, the refugee program arranged for a “catcher” in every community to which it sent a family:

We work through \* \* \* a voluntary agency that has a counterpart in the area of relocation. This counterpart may be a church group, a diocese office, a synagogue, or any type of community agency interested in helping newcomers to the community \* \* \* we won't move a person in \* \* \* unless we have got the [receiving agency] there on that other end to meet that person and they will have a flat—most likely—for them. They will have some food in the refrigerator or they will have winter clothing for the kids if they need it, and they will show the wife how to get to the supermarket and how to register the kids in school. They are not alone, and this is the kind of thing I think that we, somehow or another, need to find a way of translating into migration.

The director pointed out differences between the Cuban refugees and many U.S. migrants: by and large the Cubans generally came from a better educated class and many were professional people; they suffered little of the cultural prejudice that afflicts other minority groups in this country, and there were no social outcasts among the immigrants. But he said:

Our Nation failed miserably when we turned our faces away from the migration from the South to the North. Today we compound that mistake \* \* \* I firmly believe that a national program funded by the Federal Government, supported morally, financially, and materially by the American people working through their community counterparts; i.e., churches, synagogues, and other motivated citizen's groups, could go a long way in meeting the greatest crisis of our time, in time. One need not be a professional prophet of doom to see what will happen to a people who do not care.

#### THE ORDEAL OF THE LOCAL ADMINISTRATION

The human problems of the people in the city are real—and they are mirrored in the frustrations and difficulties of those who administer the urban places of today. All too often, the rage and frustration of the disadvantaged city dweller leads him to denounce all politicians in blistering phrases, yet in the opinion of many observers of the political scene, the quality of administration of American cities and towns has never been higher. In the complex world of urban administration today, there is little room for ineptness or corruption.

A mayor today faces demands for expensive services which rise even faster than the city's economic capacity. From the point of view of the resident, city services are not sufficient; from the point of view of the harassed mayor and city council, services provided to the slum sink in with little trace. The city is caught in a vise.

#### Recommendations

In the immediate future, the Commission proposes an increase in improvement of the services to which residents are entitled. For some cities, however, given the problems of the residents and the overload on the administration, this is equivalent to a pious exhortation. Accordingly, the Commission also recommends the decentralization of certain services to the neighborhood level through neighborhood “city halls.”

#### BETTER SERVICE IN THE INNER CITY

##### Recommendation No. 1—Accelerate improvement in poor neighborhoods by providing adequate city services

The Commission urges the governing bodies and key administrative officials of cities, urban counties, and major school districts (a) to examine intensively the relative quality of the services and facilities they provide to neighborhoods of differing economic and social characteristics; (b) to develop, publicize, and apply standards designed to assure equity on this score, and especially to insure that the particular needs of low-income neighborhoods are fully recognized and served; and (c) to move as rapidly and vigorously as possible to remedy deficiencies in public services and facilities that contribute to neighborhood deterioration.

We urge unions of municipal employees and members of professional groups to accept, with appropriate safeguards, the principle of compensation differentials among neighborhoods in order to achieve these objectives. Finally, we recommend that the States, through their urban affairs agencies or otherwise, encourage and assist urban local governments in these efforts.

The Commission urgently directs the attention of the officials of major urban governments to the repeated testimony at our hearings that low-income neighborhoods are discriminated against in the provision of public facilities and services, that present policies often result in local areas which need the most service receiving the least, and that such governmental practices contribute to urban blight and social unrest. Both a description and an explanation were



given by a witness in the Commission's New Haven hearings:

Let's take trash collection as an example—you collect by area, and you collect with equal frequency in two neighborhoods. But one neighborhood happens to have a much larger concentration of population, so what is a surface uniformity turns out to be a deficiency in certain areas.

If you are asking me, why don't they then adjust to the population, the answer obviously is, in part, the political consequences of cutting services in an articulate, well-financed, politically alert neighborhood, as opposed to one that lacks community organization.<sup>3</sup>

For another example, a child growing up in a slum area needs a higher per pupil educational expenditure than does a child from a more advantaged area. The reason is rather obvious: the school must help to compensate for shortcomings in the home environment; schools should stay open for longer hours in order to keep potential delinquents off the street and out of the gangs; and special efforts have to be made in educational counseling in regard to both motivation and post-school improvement.

Countless other examples can be cited. This situation calls for drastic and dedicated action by the governing bodies of many of our cities. In many cases, higher taxes inevitably will result. But this kind of effort on the part of civic leadership is absolutely essential if the process of physical and social decay in poorer central city neighborhoods is to be arrested and reversed.

Moreover, an incentive is needed to induce many municipal employees to accept the greater strain of work in the inner city, and this may run counter to some cherished union principles. For example, the teachers' unions and professional organizations must recognize that devotion alone cannot be expected to staff inner-city schools, when seniority entitles a good experienced teacher to a less strenuous post where the children arrive with adequate sleep, a real breakfast, and half a chance of having done their homework. Yet the teachers' organizations have not so far suggested any incentive at all to attract teachers to inner-city schools.

#### DECENTRALIZATION OF SERVICES

For the larger cities—those over 250,000—the Commission recommends that more basic action be taken over the next 2 years to improve the delivery of services, and to aid the inner city to achieve a social sense of neighborhood and community.

### Recommendation No. 2—Decentralization of municipal services to neighborhood city halls

The Commission proposes that large city governments take prompt and affirmative steps to decentralize appropriate municipal services to the neighborhood level, and to establish channels of communication with neighborhood residents.

By decentralization we mean that the municipal government would provide certain aspects (chiefly information, informal counseling, and referral) of certain municipal services, through local offices set up in neighborhoods. In the several proposals and operating examples which already exist in American cities, these service offices are grouped, and the local quarters are often nicknamed "little city halls."

#### History

The provision of public services at a district or neighborhood level is an old and honorable practice. Settlement houses have pioneered in many of the services that were later taken over by city administration. The precinct captain of two generations ago provided services to voters and potential voters. In the 1960's, the Office of Economic Opportunity added imaginative provisions to the settlement house idea, and the network of over 700 neighborhood service centers, with their local advisory bodies, now forms part of all OEO-funded community action programs. There are over 800 settlements or neighborhood centers or houses in the United States, each offering services to their neighborhood clientele.<sup>4</sup>

One of the most advanced and imaginative proposals is that set up by Executive Order 11297 of August 30, 1966, in which the President called for 14 pilot centers. The purpose of these experimental projects was to work out methods of coordinating the services of Federal agencies at the neighborhood level, and four agencies—HEW, OEO, Labor and HUD—provide funds for the services and the operating costs.

Each center is expected to reach out to residents of the neighborhood, welcome them and obtain full information on their problems. Seeking services from all three levels of government, the centers aim at working out a program that will make each family self-sufficient. The experience of

<sup>3</sup> Professor Herbert Kaufman, Chairman, Department of Political Science, Yale University, *Hearings Before the National Commission on Urban Problems*, Vol. 1, p. 176.

<sup>4</sup> Other examples: Neighborhood Action Task Forces were recommended by the President's Commission on Civil Disorders, to be composed of ranking officials from the city operating agencies; the "Passow Report" recommended decentralized school districts in Washington, D.C., and agency chiefs in that city have themselves suggested decentralizing their services; HUD and HEW have together funded some 40 local multiple-service centers.

these 14 pilot centers should exemplify and form the basis for the expanded use of such city halls that the Commission recommends.

#### *Area and population*

It is likely that existing barriers will become boundaries in many cases—a park, railroad, or a heavily traveled expressway. Size is also a flexible matter. Generally, the decentralization of municipal government is not so urgent in cities or urban counties of under a quarter million as in the large metropolises. Consequently, city hall areas might range from 25,000 to 50,000 in population, but this would necessarily vary from city to city and from neighborhood to neighborhood. Also, the problems caused by centralization and lack of communication are most pressing in the economically and socially disadvantaged neighborhoods. It may not be desirable to divide the whole city into decentralized administrative units.

#### *Service functions of the city halls*

Chief candidates for decentralization are the health and welfare agencies; but, partly depending on the size of the districts, the following municipal services could also operate on the neighborhood level: job recruitment and certain training programs, building and housing code inspection, police-community relations work, some recreation activities, and an office to entertain citizen complaints and problems (variously titled an ombudsman, human relations council; or review and appeals board). The city might even find it helpful to have collection of some fees done on a decentralized basis. Periodic property tax and utility payments are examples.

Welfare programs could include food stamp distribution and programs involving day care, including Head Start; public health clinics if not specialized health care. All such offices should be located close together to lessen the confusion and strain on the unsophisticated client, who may well be trailed by several small children as she makes her visits.

The proposed city halls would be funded to enable their aids to reach out to the residents. They would have one staff to welcome and interview them—a coordinating effort by itself. This would save the time of several agency intake people, and save the applicant from telling her story over and over to a series of strangers.

Many city services are already decentralized in a sense—fire and police precincts and schools—but their administration is not. In many cases the boundaries of neighborhood city halls can usefully correspond with the existing school or police districts, lending better identi-

fication to the community in the eyes of the city as well as the neighborhood.

It should be stressed that wherever possible the decentralized services—police, public welfare, and the like—should be encouraged to hire local residents. This would mean removal or modification of restrictive requirements, such as those found in employment merit systems. Such indigenous employees could serve as receptionists, clerks, switchboard operators, and aids to case workers, relieving the skilled professionals for more substantive work.

Washington, D.C., is considering this specific idea, in connection with a directive from the mayor to develop ways to implement the recommendations of the National Commission on Civil Disorders. The city's personnel director has proposed that neighborhood personnel centers be opened to hire residents for jobs with the city, and that 1,000 jobs a year be established for the "hard-core unemployable."

#### *Communications functions*

Neighborhood city halls can also open up new opportunities for communication between local government and the residents of neighborhoods. The Commission recognizes the great need for a feeling of participation in decisions by the neighborhood residents whom the decisions will affect. We urge that the development and maintenance of such new channels of communication be a major function of the decentralized neighborhood city halls.

At the same time, the Commission is aware that the idea of institutionalizing communication is more easily praised than achieved. The way is lined with traps. One major pitfall is the problem of obstructiveness. Many administrations in large suburban areas and even, lately, in some cities, have had to deal with the group of angry, organized citizens, protesting the location of a new school, the demolition for an urban renewal project, the rerouting of a sewer line, or the laying down of a freeway.

The right to protest governmental action peacefully is part of the American philosophy, and such groups and such protests will continue to emerge as long as we are a democratic society. But the Commission feels that organized social protest should remain the province of the private sector. The touchy history of OEO-financed community action has been described as a sort of guerrilla warfare financed by the Government against itself, and strikes us as demonstrating that trying to institutionalize protest under the very auspices of the city government will not succeed.

The Commission feels that participation does not mean that a little local area has the right to obstruct all actions of which it disapproves, but



that the neighborhood has the right to (1) a full explanation of information on which public decisions must be made and (2) a vehicle to express to the decisionmakers its reaction to the action to be taken.

Are the advantages of communication worth the dangers of citizen participation? We think that they are.

One of the aims of our recommendation is to create a sense of community where none exists. Many times an emergency can evoke an area-wide response, and a feeling of community develops along with the organization to conduct the response. Examples are the campaign against demolition on New York's West Side, or the battle against the effects of Hurricane Diane in Waterbury, Conn. The loss of identity and the feeling of helplessness and abandonment of innercity residents are a kind of chronic emergency.

Achieving this limited form of communication is a delicate business. No one method can serve in all circumstances. Advisory councils of various kinds are an obvious device; the appropriate use of neighborhood individuals is another. Local residents hired by the city halls would be a source of information. Whatever the device, the important purpose is to relieve the feeling of hopelessness in the face of giant government that has too often characterized neighborhoods in our large cities.

Advisory councils, however, present a problem of selection. Usually, those in charge of appointing advisory committees of various kinds make a conscientious effort to include most of the individuals or groups active in an area; but undeniably there is less likelihood, through appointment, of reaching the more disaffected, inactive members of a community. Moreover, there is no certainty that those chosen will remain in touch with the community.

Many voluntary neighborhood civic associations do an effective job of communication and neighborhood work now, but in too many cases their activities dwindle into window-box competitions and letters to the editor. Too often they cease, after the initial impetus which formed them, to be representative of the age and economic groups in their area.

We would suggest that the views of the neighborhood be sought in the very beginning, in the process of planning the city hall, so that the residents can feel that this is their center. But in all actions involving advisory councils at whatever stage, certain rules of the game must obtain. As outlined in the study made for the Commission:

First, the actual policymaking group needs to be frank in stating the limitations on the authority of the advisory group instead of implying that it has

more power than is the case. Second, the administrator must appoint a group that is reasonably representative of the community or its counsel obviously will not be worth having. Third, he must create the conditions under which he is likely to get that counsel: the group must meet, it must be given information, it must be unafraid to speak frankly, it must be heard by those who can make decisions. And fourth, the questions with which it is asked to deal should primarily be those having to do with the effective delivery of services, *rather than* with community action.<sup>5</sup>

The inclusion of an "ombudsman" function in the city hall was mentioned above. The type of complaint likely to reach such an office will very probably be petty, but might play a considerable role in community pride.

Neighborhood appearance is one such issue. A block decorated with three bars, two liquor stores, a service station and a vacant lot can have a demoralizing effect on the neighborhood, no matter how desirable each individual component. The city halls could relay the opinions of residents on these items to the central administration.

The type of activity permitted in a neighborhood can be another sore point. There are commonly over 200 types of activity for which a license is required, ranging from bars to barber-shops, and although the wishes of the neighborhood should not govern, they should certainly be taken into account as the quality and intensity of activity permitted. For example, following the April 1968 disorders, residents and businessmen in affected areas of Washington, D.C., went on record with a request that when the areas were rebuilt, fewer liquor stores should be permitted per block.

In connection with relaying such opinions of residents, on matters wholly within their own area, the city government might delegate other minor functions to the neighborhood level and reap a considerable harvest of popularity.

One such area of activity would cost the city little but would enlist the immediate enthusiasm of the residents. This is the power to make, or direct the making, of small neighborhood improvements. Examples are addition of more trash receptacles, minor repairs to public property, and tree and flower planting. Still more popular would be better lighting of streets and alleys, more frequent trash pickup, stop signs at certain intersections and so on. Readers of the action-line type of column run by many city newspapers will recognize these complaints immediately.

This is the kind of small improvement that is easily made, but which unsophisticated residents simply do not know how to obtain. Slight as it seems, the knowledge of area residents that they have an accessible means of affecting their

<sup>5</sup> *Local Community Structure and Civic Participation*, op. cit. Chapter VII, p. C-15.

own immediate environment can have a multiplier effect on citizen self-confidence and involvement.

Many times only bureaucratic inertia prevents the taking of small steps with big effects. One example is a block party. A simple afternoon party can require the approval of a surprising number of officials. Permission to close off a block for the afternoon, the question of noise, the assignment of a policeman, the right to conduct a bingo game, to sell takeout dinners and so on can become the subject of ponderous consideration by several levels of bureaucracy, and require weeks to obtain approval. The neighborhood city hall could be authorized to issue temporary 1-day permits for such activities, after due notice to the local police precinct, and other appropriate authorities.

#### *Orientation centers*

We also suggest that neighborhood information and referral centers be established within such neighborhood city hall areas to orient low-income residents and migrants to the opportunities, demands, and responsibilities of an urban society and assist them in meeting immediate social and economic needs. A great range of services is possible in this kind of program, and if properly managed such a center can avoid giving its clients a "hick" or immigrant stigma.

Some services would be appreciated by long term as well as new residents. One might be a family budgeting course; another a course in housekeeping techniques.

Landlords' complaints are not always baseless: families unused to central heating have been known to regulate indoor weather by turning the thermostat up full blast and opening or shutting windows. Some tenants stuff too many items down a flush toilet, break windows, crack plaster, ignore leaks and so on, or exhibit unconcern when their children do so.

Civic organizations often strongly resist proposals for such tenant education, regarding them as discriminatory, or fearing that acceptance would mean an admission of total tenant responsibility for damage and dirt. Such a program backed by an arm of the city government, however, and coupled with other positive programs of assistance, might be more easily accepted and would pay benefits to owner and tenant alike.

#### *Effect on the city administration*

In the previous chapter the Balkanization of the metropolitan area was deplored, and remedies were suggested to group its units, or some of their functions. There is an apparent contradiction between consolidation of the suburbs and the seeming fragmentation of the inner city represented by our recommendations for decentralization. But the situations are different. The suburbs are suffering from rampant separatism; the inner city from loss of identity. The suburbs everywhere display a pattern of overlapping functional districts, and we suggest that this be remedied. The inner city is one administrative district, and we suggest vertical sectioning of it into manageable areas.

## Supplementary Views on Community Advisory Boards

The Commission discussed at length the question of whether or not certain limited administrative, regulatory and/or advisory powers could be given to duly constituted community or neighborhood boards in designated neighborhoods of large cities. Such power could be granted through statewide enabling legislation and would, in theory, be applicable to neighborhoods comprising 50,000 people or more in larger cities.

After much deliberation on this point, the Commission voted against making such a recommendation on the grounds that such a delegation of power would further fragment the decisionmaking machinery of urban government, would lead to an even more chaotic and time-consuming procedure for community development and would tend to run counter to other Commission recommendations that certain powers be shifted from localities in metropolitan areas that are already too small to function effectively.

It is the feeling of several commissioners that while the objections posed may be in whole or in part factual and valid, there are several overriding reasons why such subunits of government are desirable:

1. The Commission elsewhere in its report has stated very clearly the case for metropolitan governments. While certain powers should be given to larger bodies of government for better distribution of tax resources and for comprehensive planning purposes, it is also true that certain other functions should be taken back to the community level where their effect is most telling. For example, while a metropolitan government can make possible a comprehensive land use plan, it is really only at the neighborhood level that the effects of minor changes in land use and such correlative decisions as those involving liquor licenses, curb cuts, signs, street closings, and the like can best be decided or discussed intelligently.



2. Even with a thoroughgoing metropolitan area plan of government, there are many functions that will still reside with the smaller communities in the suburban areas. It seems logical, then, that certain similar functions should reside with inner city communities. This, then, would mean that the taxpayer and voter in the inner city of a metropolitan area would have the same kind of leverage on the policies that affect his neighborhood growth, redevelopment, or maintenance, as his fringe area counterpart.

3. The Commission has recommended an approach to the decentralization of municipal offices and services in the so-called little city hall approach. The formulation of neighborhood boards that constitute an arm of the citizenry that would operate through these little city halls seems reasonable and logical. This is not to suggest that community groups would at all times be harmonious with city hall policies; but it does mean that the citizens of some of our larger neighborhoods, which in many cases would rank in the top 200 of American cities in population, would have a stronger sense of participation in urban government. The creation of such community boards could counter the argument posed by the opponents of metropolitan government that metropolitan government dilutes the

political strength of the inner city population.

It is with these things in mind that we submit this supplementary view that there is some merit in the concept of neighborhood boards that have limited powers over city functions and agencies, and direct access to the power centers at city hall or at the top of the metropolitan government pyramid.

As of the writing of this report, several moves in this direction in antipoverty efforts, model city neighborhoods, school board decentralization, and decentralization of other urban services are in most cases accompanied by much conflict and turmoil, arising mostly from ill-defined powers and responsibilities. But, this is to be expected because the concept, while evolutionary in the normal democratic process, is almost revolutionary in effect and the concept is new. We must not lose sight of the worthiness of the idea because of the difficulties that are presently being encountered in these early and tentative efforts around the Nation.

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## CHAPTER 3

# The Crisis of Urban Government Finance

Metropolitan areas, with about two-thirds of the Nation's population, make up an even larger part of the American economy. Moreover, they account for most of the recent growth in population and economic activity, with a similar trend anticipated for the next two decades: careful projections prepared for this Commission show that 90 percent of the increase in American population between 1960 and 1985 is likely to occur within present metropolitan areas.<sup>1</sup> Personal income averages about half again more per person in these areas than elsewhere, and taxable property values per capita also average higher in metropolitan areas.<sup>2</sup> In the light of such facts, one might well ask: Is there *really* a crisis in urban government finance? Or, perhaps, are the widely heard claims to that effect merely the exaggerations to be expected from a democratic society in the throes of adjustment to urban growth and change?

Surely the term crisis might be questioned if it were to imply some immediate financial catastrophe, or an early approach to some absolute fiscal limit upon the provision of public services and facilities in urban areas. But in terms of a more temperate definition, there is extensive evidence of a present and growing crisis for urban government financing. This conclusion can be reconciled with the facts cited above concerning the comparative economic position and growth patterns of metropolitan areas, on at least three grounds:

(1) More public services are needed and considerably higher governmental costs are incurred in metropolitan areas than elsewhere;

(2) Serious financing problems are faced by State and local governments as a whole—as evidenced by the rapid rise in their expenditure, indebtedness, and taxation—so that the possibly stronger economic position

of metropolitan areas must take account of this general situation; and

(3) Inherited institutions of urban government and its financing are not well designed to tap the economic capacity of *entire* metropolitan areas; instead, they deal with numerous subordinate parts of such areas, seriously limiting effective and equitable capture of the large sums that are needed for public purposes.

Following is a summary of illustrative evidence on these and related aspects of the urban financing crisis.

### THE SCALE OF URBAN FINANCE REQUIREMENTS

Expenditure by local governments in metropolitan areas is now running at an annual rate of about \$370 per capita, or about one-tenth as much as the average income of metropolitan area residents.<sup>3</sup> More than 40 percent of such spending supports education—mainly for public schools but including some amounts for local colleges and junior colleges. Social welfare takes about 17 percent of the total. Roughly 10 percent supports each of three categories—water and sanitation, highways and other transportation, and police and fire protection. All other urban expenditures make up the remaining minor fraction.<sup>4</sup>

Urbanization results in a large expansion of local government costs. In 1962, per capita expenditure of local governments was one-third higher in metropolitan areas than elsewhere. This is partly because metropolitan pay rates are higher: in 1962, earnings of full-time local government employees averaged 28 percent more in SMSA's than elsewhere. Also, with population growth taking place mainly in metropolitan areas, they have a particular need for additional public facilities and thus for more capital outlay. But the main reason for higher urban spending is the wider range and more intensive nature of public services in areas of concentrated population. This appears in the relative volume of local government employment and expenditure for all major functions except

<sup>1</sup> See Patricia Leavey Hodge and Philip M. Hauser, *The Challenge of America's Metropolitan Population Outlook—1960 to 1985*. Washington: The National Commission on Urban Problems, Research Report No. 3, 1968.

<sup>2</sup> As to personal income, see U.S. Department of Commerce, *Survey of Current Business*, August 1967, p. 25; as to taxable property values, see U.S. Bureau of the Census, *Local Government in Metropolitan Areas* (Volume 5, 1962 Census of Governments), p. 11.

<sup>3</sup> For supporting data, see ch. 8, p. 408.

<sup>4</sup> For supporting data, see ch. 8, p. 409.



two—education, and streets and highways. For education, per capita spending runs about the same for metropolitan and other areas; for highway purposes, the average is lower in metropolitan area. However, data for 1962 show local public expenditure per capita averaging<sup>5</sup>—

Over 200-percent higher in metropolitan areas than elsewhere for public housing and urban renewal, nonhighway transportation, refuse collection, and parks and recreation;

From 100- to 200-percent higher for three costly functions—police protection, fire protection, and sewerage; and

From 35- to 90-percent higher for such other functions as public welfare, libraries, water supply, health and hospitals, and interest on debt.

The net result of all these differences is that total local government spending averages about one-third more, per person, in metropolitan areas than elsewhere. Some of the extra load may apply through charges, or initially through borrowing for capital outlays, but the major portion depends upon taxation, and it is thus not surprising to find that per capita local taxes average far higher in metropolitan areas than elsewhere—in 1962, \$130 as against \$82 per capita.<sup>6</sup>

This comparison is not offered as evidence of inequity. It is reasonable to expect higher taxation in areas that require and receive more public services than are necessary in less closely populated territory. This helps to explain some of the rapid growth that has been taking place in domestic public expenditure. It also indicates that further urbanization will continue this expenditure trend. And it points up the resulting present and prospective strain upon public financing arrangements which were largely developed for a far less urban society.

#### FINANCING TRENDS AND PROSPECTS

Local public spending, taxation, and indebtedness have been rising rapidly ever since World War II—far outpacing the growth of the economy as a whole. Consistent figures specifically for urban government areas are available only for the 38 largest metropolitan areas, covering the interval from 1962 to 1966.<sup>7</sup> During that recent 4-year period, such areas experienced a population rise of only 7.3 percent but an increase of one-third in total local government general expenditures and similar increases in local government revenue and indebtedness. As a result, per capita amounts of local govern-

ment finance in these major SMSA's rose considerably: revenue and expenditure by about one-fourth, and outstanding debt by about one-sixth.

In the absence of earlier comparative urban finance data and related economic measures, it is necessary to refer to comprehensive nationwide figures. However, since metropolitan areas account for about three-fourths of the totals, and other smaller urban areas for much of the rest, the indicated trends are still highly relevant to the status of urban financing.

During the two decades from 1946 to 1966, when the gross national product rose about 250 percent, there was a sixfold growth in local government revenue, expenditure and debt. With a corresponding trend for States, there was a similar multiplication of State-local financial totals. Meantime, Federal Government debt rose very little, and Federal revenue and expenditure at a lesser rate than gross national product.<sup>8</sup>

But since the 1946-66 interval included the immediate post-World War II years, when adjustments toward a more nearly normal economy were taking place, it is better to deal with a more recent period; i.e., the 9 years from 1957 (when benchmark data were obtained from the census of governments) to 1966, the latest year for which data have been published. Between 1957 and 1966, there was a rise of about two-thirds in gross national product (up 67.9 percent) and personal income (up 66.2 percent), but a *doubling* in total revenue, expenditure, and indebtedness of local governments, and a corresponding rise in State finances. The changes for Federal Government finances were far less—revenue up 62 percent, expenditure up 75 percent (or, excluding grants to State and local governments, 67 percent), and total debt 18 percent. The strong upward trend in local and State-local financial scale was highly consistent during this period, and considerably outpaced the growth in the Nation's total product and income, year after year.<sup>9</sup>

With State-local tax revenue rising about 8 percent annually (as compared with 4.5 percent for Federal tax collections), the result has been a material shift in the composition of the total tax take, and its relationship to personal income. Federal taxes in fiscal 1966 equaled 17.8 percent of all personal income, as against 19.9 percent 9 years earlier, while State and local taxes moved up during this interval from 8.2 to 9.7 percent of personal income. Or, to express the shift in another way, the State-local proportion of total taxes increased from 29.2 percent in

<sup>5</sup> For supporting data, see ch. 8, pp. 409-410, tables 2 and 3.

<sup>6</sup> U.S. Bureau of the Census, *Local Government in Metropolitan Areas* (vol. 5, 1962 Census of Governments), p. 184.

<sup>7</sup> See U.S. Bureau of the Census, *Local Government Finances in Selected Metropolitan Areas in 1965-66*.

<sup>8</sup> For supporting data, see ch. 8, p. 410, table 4.

<sup>9</sup> For supporting data, see ch. 8, p. 411, table 5.

1957 (having risen from 21.8 percent of the total in 1946) to 35.1 percent in fiscal 1966.

This State-local tax record is striking evidence of the strong pressures that have applied to these governments for the extension and improvement of public services, especially when one takes account of the nature of the taxes involved. The State-local revenue system is relatively sluggish in its response to economic growth. Various studies strongly indicate an income elasticity for State-local taxes averaging around unity; i.e., with a rise of 1 percent in gross national product or personal income likely to result in an automatic rise of about 1 percent in total State-local tax revenue. Assuming such a relationship it would appear that, of all State-local tax revenue in 1966, more than one-sixth was supplied by tax-increasing action by these governments in the previous 9 years, and more than four-tenths resulted from such action in the 20-year period 1946-66. Stated in another way: The average effective rate of State-local taxation, in relation to personal income, was enlarged through tax-increasing efforts by nearly one-half between 1946 and 1957 and by another 18 percent between 1957 and 1966. Similarly, a recent study by staff of the Advisory Commission on Intergovernmental Relations estimates that about one-half of the increase in State-local tax revenue between 1950 and 1966 resulted automatically from economic growth with the rest coming from new or broader taxes or tax rate increases.<sup>10</sup>

This is in sharp contrast with the Federal tax picture. Particularly because of the National Government's heavy reliance upon income taxation, Federal revenues are less sluggish in their response to economic change, so that a 1-percent rise in national product or income automatically results in a proportionately larger increase in tax revenue. Thus, with the economic growth that was occurring between 1957 and 1966, the Federal tax proportion of income would have risen materially (instead of dropping off from 19.9 to 17.8 percent) if it had not been for various rate reductions made during this interval. (Federal tax cuts had also occurred between 1946 and 1957, to provide the slight drop in the Federal tax-to-income relationship that occurred during that interval.)

As noted above, these different developments with regard to Federal and State-local tax rates have considerably increased the State-local share of all tax revenue. They have also involved a shift toward more reliance upon regressive types of taxes; i.e., those which involve a larger burden in relation to income for the poor than

for the prosperous. Collections from the two major regressive components—the property tax and sales taxes (both general and selective, and including customs)—made up 36.3 percent of the Federal-State-local total in 1966, as compared with 33.9 percent in 1957; individual income taxes, the one big progressive part of the tax system, changed from 37.9 to 37.4 percent of the total; the proportion from corporate income taxes dropped from 22.5 to 20 percent; and all other taxes moved from 5.7 to 6.3 percent of the total between 1957 and 1966. The record for the property tax alone is especially notable—its yield made up 15.3 percent of the all-government tax total in 1966, as against 13 percent in 1957 and less than 11 percent 10 years earlier, in 1946.<sup>11</sup>

It is impossible to predict with any precision the future course of State-local finances, or to say how long it may be until the rate of increase in this sector might taper back nearer to the pace of general economic change. The actual rate of further rise, of course, will depend considerably upon the performance of the economy as a whole, including price level developments. It is possible, however, to make several observations about the prospects:

- (1) The strong recent upward trend in local and State government finances shows no sign of slackening. Rather, if anything, there is some evidence of acceleration: State-local tax revenue was up 8.9 percent in calendar 1967 from the previous year, as compared with an average of 7.8 percent for the previous 9-year period, and State-local construction expenditure increased 10 percent in calendar 1967, including a whopping 13-percent rise at the local government level.<sup>12</sup>

- (2) Various underlying basic elements that have contributed to the recent upward trend can be expected to continue, though perhaps with some changes in pace or composition. These include population growth, increased urbanization, rising price levels and generally higher income levels, providing added leeway for a net expansion of the public share of total consumption.

- (3) Public expectations continue strong for better governmental services and facilities, particularly in major urban areas. Despite concern and controversy about methods for footing the bill, there seems even more widespread recognition of unsolved problems and needs; for example, with re-

<sup>11</sup> For supporting data, see ch. 8, p. 411, table 6.

<sup>12</sup> See U.S. Bureau of the Census, *Quarterly Summary of State and Local Tax Revenue, October-December 1967*, and *Construction Expenditure of State and Local Governments, October-December 1967*.

<sup>10</sup> Advisory Commission on Intergovernmental Relations, *State and Local Taxes: Political and Economic Contributions to Revenue Growth*. (Report in process of publication.)



gard to education, crime control, traffic, and transportation.

(4) Strong pressure can be expected for local governments' pay rates to continue up more rapidly than other wage and price levels, in order to maintain and improve the competitive position of these employers in attracting a larger work force. (This has been one major element in the rise of local expenditure, of which a sizable part goes into payrolls.)

At least for the next few years, then, it seems most likely that growth in the financial scale of State and local government—and particularly of urban local government—will continue to outrun by a considerable margin the pace of general economic development. In turn, this means that an even larger part of the Nation's product and income must somehow be devoted to these public needs.

Should the differential trends of the past decade continue for only another 5 years, a further rise of about one-sixth in the relative scale State-local expenditure can be expected—that is, up from about 18 to 21 percent of total personal income—with local governments accounting for about two-thirds of such spending. There seems little reason to expect any lesser growth than this, unless the National Government takes over some major present State-local responsibilities (e.g., replacing the present intergovernmental system of public assistance by a direct Federal program for income maintenance). Similarly, a continuance of recent developments will demand further tax broadening and rate-increasing efforts by State and local governments, to bring their tax yields up to around 11 percent of total personal income in 1973, as compared with the 9.7-percent level of 1966 and the 8.2-percent level of 1957.

This, then, is one important aspect of the urban financing crisis—the obvious strong tendency for domestic governmental requirements to outpace economic growth: a problem most evident in major urban areas but also bearing heavily upon State governments and the State-local financing system as a whole.

#### SOURCES OF URBAN GOVERNMENT FINANCING

Locally raised taxes provide about one-half of all the funds to finance urban public services, with the balance supplied by Federal and State intergovernmental revenue and local nontax sources, mainly service charges and benefit assessments. Most of the intergovernmental sums are from States (especially for schools and for public welfare where locally administered). Although direct Federal-local grants have been increasing rapidly, such aids account for only a very small part of the total recent increase in

urban government revenue. For example, the 38 largest SMSA's had \$7.8 billion more revenue in 1966 than in 1962, but only \$346 million of this difference was increased direct Federal aid.<sup>13</sup>

Of all tax revenue of urban governments, about five-sixths comes from property taxation. In most metropolitan areas the proportion is considerably higher, since there is only scattered local use of other highly productive taxes. On the other hand, there are some areas where local general sales taxes (generally State-collected and returned) or payroll or earnings taxes supply a sizable fraction of all local tax revenue.

Heavy reliance upon property taxation is widely seen as an important element in the urban financing crisis. Sometimes the property tax is blamed for conditions or problems that are not inherent in this particular revenue device itself but instead arise from the governmental fragmentation of metropolitan areas. In other words, such a governmental pattern—rather than the property tax as such—deserves most of the blame for the intrametropolitan "fiscal disparities" which are described below. There are, however, some defects which seem to be inherent in the property tax and which limit its desirability as a *primary* means for urban government financing. As it is now so widely used, the property tax—

- Imposes a disproportionately heavy burden upon housing, an essential and socially desirable form of private consumption;

- Tends to deter the adequate provision and sound maintenance of urban housing;

- Operates regressively, so as to involve a larger burden in relation to income for poor families than for those better off; and

- As presently administered, commonly involves serious departures from the legal intention of the law, that all taxable property in any particular locality should be burdened uniformly in relation to its value.

The heavy load which property taxation so widely places upon housing is a result of (1) the large sums needed for essential public services in urban areas, where this type of tax is generally the predominant financing source, as already noted, and (2) the fact that residential property makes up about half of the total tax base in such areas.<sup>14</sup> As a result, it has been

<sup>13</sup> See U.S. Bureau of the Census, *Local Government Finances in Selected Metropolitan Areas in 1965-66*.

<sup>14</sup> See Dick Netzer, *Impact of the Property Tax—Effect on Housing, Urban Land Use, Local Government Finance* (National Commission on Urban Problems, Research Report No. 1), pp. 17-19; and U.S. Bureau of the Census, *Assessed Valuations for General Property Taxation* (Preliminary Report No. 4, 1967 Census of Governments), tables 2 and 4.

pointed out in a study prepared for this Commission:

\*\*\* Property taxes average about 19 percent of the rental value of nonfarm housing in the United States currently, equivalent to an excise tax of nearly 24 percent on rental value, excluding property taxes.

\*\*\* [Property] taxes as percentages of actual cash outlays for housing range—excluding the South—from sales-tax equivalent rates of 18 percent for large apartment houses outside New York City to 30 percent or more for single-family houses in the northeast, and multifamily properties in New York City. \* \* \*

These very high tax rates are greatly in excess of the rates applicable to other forms of consumer expenditure, with the exception of taxes on liquor, tobacco, and gasoline. \* \* \* *It is simply inconceivable that, if we were starting to develop a tax system from scratch, we would single out housing for extraordinarily high levels of consumption taxation.* More likely, we would exempt housing entirely from taxation, just as many states exempt food from the sales tax.<sup>15</sup>

The deterrent effect of property taxes on the provision and maintenance of urban housing is, of course, one aspect of the relatively high tax burden just described. A differentially heavy rate of tax will operate in this way for any particular form of consumption, but the results can be especially unfortunate in the case of urban housing renovation. A Commission survey conducted through the International Association of Assessing Officers revealed widespread assessor response to building permit activity involving even the most modest repairs.<sup>16</sup> Especially where assessing is outdated and lacking in uniformity to begin with, the act of repairing a house may trigger a reassessment which causes the building that is renovated to receive a new valuation which is increased disproportionately not only to the improvement just added but also to the valuations of neighboring or similar structures.

Much of the regressivity or "antipoor bias" of the property tax results because housing takes a considerably larger part of the income of poor than of prosperous households. In addition, much of the property tax on business property

is undoubtedly shifted to consumers through higher prices; as in the case of any general consumption tax, this involves a greater tax load in relation to income for the poor than for better-off consumers. Taking account of both these factors, one careful scholar has concluded that the degree of regressivity [of the property tax] is probably greater than that for any other major tax used in the United States.<sup>17</sup>

The final problem mentioned above—differential taxation of properties legally entitled to uniform treatment—arises from (1) the sheer difficulty of accurate and up-to-date assessment, especially in the metropolitan context of extremely diverse property and rapid economic change and (2) inherited defects in property tax laws and assessment machinery, as more fully examined in the next chapter.

The property tax is unique among major American revenue sources in the degree to which its base is determined by official action (subject, of course, to possible taxpayer appeal) rather than primarily by "self-assessment" as in the case of the income and sales taxes. This is understandable. Unlike most of the income flows or transactions reached through those other kinds of taxes, the value of individual parcels or items of taxable property is not (except for the small proportion of properties currently changing hands) directly reflected in any relevant source. Present value must therefore be calculated or inferred from other evidence, often involving some uncertainty or inexactness. Thus, *absolute* correctness and uniformity of valuations for property taxation is an impossible target, which may be approached but not fully attained.

The problem of accurate valuation is especially serious for business property. At the other extreme, it is generally agreed that a close approach to uniform assessment should be possible for single-family houses. Nevertheless, wide assessment variations appear in most areas for even this class of property.

This problem can be seen in data provided by the census of governments. The uniformity test is the pattern of consistency (or inconsistency) within taxing jurisdictions in the ratio of assessed to market value of surveyed properties. The 1967 data reveal that in 122 large cities the ratios for half of all houses deviated at least 14 percent up or down from the average. Worse, in 18 of these cities, the deviation for half of the houses was at least 20 percent.<sup>18</sup>

<sup>15</sup> Netzer, *op. cit.*, pp. 22 and 25.

<sup>16</sup> To obtain information needed by the Commission with regard to assessors' treatment of property alterations authorized by local building permits, the International Association of Assessing Officers canvassed a number of major assessing jurisdictions. Facts supplied by 50 such offices indicate that nearly all of them routinely receive building-permit information and use it as a guide for selection of properties to be reassessed. Only a minority of these agencies specify some minimum dollar figure below which a permit-authorized alteration will not result in an assessment review. Many reporting assessors emphasize that they do not "automatically" accept the value of the improvement shown on the building permit as a measure of change in property value, on the ground that this figure may be inexact. Nevertheless, the newly-improved or altered properties may be differentially treated, relative to taxable realty generally, if other assessments in the area have become outdated, unless this factor is fully taken into account in the selectively updated reappraisals. With the rapid changes taking place in most major urban areas, the heavy workload of assessors, and the common infrequency of comprehensive reassessment, the probable result may often be—as many property owners believe—a disproportionate raising of the tax valuations for individual properties that are altered or renovated. See also Netzer, *Ibid.*, p. 29.

<sup>17</sup> Dick Netzer, *Economics of the Property Tax* (Washington: The Brookings Institution, 1966), p. 59.

<sup>18</sup> For supporting data, see ch. 8, p. 412. Extensive earlier evidence of assessment variations for single-family houses appears in U.S. Bureau of the Census, *Taxable Property Values* (Volume 2, 1962 Census of Governments).



An illustration clarifies what this 20-percent deviation means. In one of the 18 cities just cited, take three houses (and lots), each worth \$20,000:

	Market value	Assess- ment ratio (percent)	Assess- ment	Tax rate (percent)	Tax
High house.....	\$20,000	36	\$7,200	8	\$576
Average house.....	20,000	30	6,000	8	480
Low house.....	20,000	24	4,800	8	384

In this example city, the average assessment ratio for all houses is 30 percent of market value. But one-fourth of all houses are assessed at 20-percent more than that ratio (36 percent) or higher, and another fourth are assessed at 20-percent less than that ratio (24 percent) or lower. Thus three example houses, high, average, and low are assessed respectively at \$7,200, \$6,000 and \$4,800. Applying a typical tax rate, their annual tax payments, in the same order, are \$756, \$480 and \$384. The high pays \$196—or 51 percent—more than the low.

Widespread persistence of excessive variation in property tax valuations can in part be traced to unsound assessment arrangements. We offer in the next chapter several recommendations for action on this problem, which should, if carried out, bring property tax assessments far nearer to an acceptable standard of equity and uniformity.

Most of the revenue obtained by urban local governments from nonproperty taxes is from general or selective sales taxes. These, like the property tax, tend to operate regressively to the particular disadvantage of poor households.

Altogether, then, it is part of the crisis of urban government finance that so much of the large and growing sums required must now come from revenue sources that place an especially heavy burden upon the poor—in particular the property tax, which is not only regressive but tends to deter housing construction and maintenance and in many areas is inequitably administered.

#### FISCAL DISPARITIES WITHIN METROPOLITAN AREAS

The problems outlined above appear most vividly in the core cities of metropolitan areas—particularly the major older cities of the Northeast and Midwest, but increasingly also in other parts of the Nation. There is a serious and growing disparity in the relative fiscal capacity of the central cities and their respective suburban fringe areas.

parts of the Nation) tremendously increases of many central cities is actually below that of adjacent metropolitan-fringe territory. As has been pointed out:

\* \* \* In nearly all the larger metropolitan areas in the Northeast and Midwest, per capita taxable property values (corrected for differences in assessment levels) in the central cities are well below those in the outlying parts of the same metropolitan areas.<sup>19</sup>

This is a relatively recent development, differing sharply from conditions of 30 or 40 years ago. As the same writer notes:

\* \* \* In the past, \* \* \* nearly all the economic activity in metropolitan areas was concentrated in the central cities and could be reached by central city taxes. Today, taxable wealth and capacity have dispersed throughout metropolitan areas—beyond the reach of central city taxes—while needs for special public services continue to be concentrated within the central cities.<sup>20</sup>

However, it is the higher public expenditure needs of the central city, rather than an absolute deficiency in its tax base, that especially demand attention. At least three factors contribute to the additional requirements of the central city:

(1) Above all, this is where the poor and disadvantaged tend mainly to be concentrated. There are more high-cost citizens from the standpoint of such poverty-linked services as public assistance, public health and hospital care, housing, other social services, and education of disadvantaged children.

(2) The fact that population concentration (as noted above in the contrast between metropolitan areas as a whole and other parts of the Nation) tremendously increases the necessary scope of such costly services as police and fire protection, parks and recreation, and sanitation. For most central cities, furthermore, these services—as well as the local highway system and traffic control activities—must meet the needs of an expanded daytime population which includes a net inflow of nonresident suburban commuters.

(3) Since the central cities developed before suburbia, their public facilities—schools, hospitals, water supply and sewerage systems, and the rest—typically include a far higher proportion of deteriorated structures and equipment, in need of replacement or major renovation. Expanding suburbia, of course, also must provide for new public plant, but these needs are in the context of present and prospective growth, rather than—as in the case of many central

<sup>19</sup> Dick Netzer, *The Urban Fiscal Problem* (Institution of Local Government, University of Pittsburgh, 1967), p. 9. See also ch. 8, pp. 412-414.

<sup>20</sup> *Ibid.*

cities—of a stable or declining population and sluggish economic development.

As a result of these factors, most metropolitan central cities have higher taxes than the average for their respective suburban-fringe areas. Furthermore, given the fragmented structure of local government, most metropolitan areas include some territory with tax rates *far* below that of the core city. As a result, local financing conditions add to the many other forces that are encouraging fringe-area growth to the relative disadvantage of central cities. This process is not self-correcting, but self-reinforcing. As has been observed:

If the central cities must impose higher tax rates on their more limited tax bases \* \* \* there is likely to be some inducement to residents and businesses to move to lower-tax jurisdictions in the same metropolitan areas. \* \* \* This migration in turn further weakens central city tax bases, setting the stage for a new descent on the fiscal and economic spiral.<sup>21</sup>

Similar conclusions are reached in a recent major study by the Advisory Commission on Intergovernmental Relations, entitled "Fiscal Balance in the American Federal System." Part II of that study, dealing with "Metropolitan Fiscal Disparities," was based upon a detailed comparative analysis of data for the 37 largest metropolitan areas in the Nation for the years 1957, 1962, and 1965, and led to conclusions that may be briefly summarized as follows:<sup>22</sup>

There is a growing concentration of high cost citizens in central cities.

The paradox of poverty in the midst of plenty emerges most strikingly in the central cities of large metropolitan areas. The decline in absolute poverty is overshadowed by economic disparities between large central cities and their suburbs.

The deepening fiscal crisis reflects the exodus of middle- and high-income families and businesses from the central city to suburbia.

In central cities, the burden of local taxes averages 7.6 percent of personal income

compared to only 5.6 percent of income for residents outside central cities.

Central cities nevertheless increased their relative tax effort during a period when their property tax base experienced a deceleration in rate of growth or an absolute decline.

In the 37 largest metropolitan areas, current public school expenditure in 1965 averaged \$449 per pupil in the central cities, compared with \$574 per pupil in suburbia. "Children who need education the most are receiving the least."

State aid to school districts aggravates this situation by favoring rural and suburban districts.

Per capita noneducational (municipal) outlays of \$232 per capita were made by the 37 largest central cities in 1965—\$100 greater than their suburban counterparts.

Of growing significance are fiscal disparities among rich and poor suburban communities in many metropolitan areas.

#### IN SUMMARY

It is all too clear, then, that—

There is a crisis of urban government finance.

This crisis is most strikingly evident for central cities of the largest metropolitan areas but also affects other large cities and an increasing number of suburban communities.

The crisis is rooted in conditions that will not disappear but threaten to grow and spread rapidly unless major shifts occur in recent demographic trends (especially that which has concentrated so many disadvantaged people within the central cities and other poverty pockets of metropolitan areas, or unless significant changes are made in traditional patterns of governmental structure, responsibilities, and financing.

The crisis is of mounting proportions and feeds upon itself.

<sup>21</sup> *Ibid.*, p. 10.

<sup>22</sup> Advisory Commission on Intergovernmental Relations, *Fiscal Balance in the American Fiscal System*, Vol. 2, pp. 5-6.



## CHAPTER 4

# State-Local Action Toward Better Urban Financing

The mayor of a large city, in testimony to this Commission, said:

Our problems are financial ones. I have sometimes characterized the three major problems as being money, finances, and revenue.

His phrasing was intended humorously, but his point was dead serious. Responsible officials of cities across the land similarly describe financial limitations on their efforts to create acceptable urban environments. If we talked about better publicly supported housing, better neighborhoods and better communities without addressing ourselves to the money problems, we could legitimately be charged with avoiding one of the central aspects of these issues.

Money is not the only limiting factor, as the mayor quoted above would undoubtedly agree. Other constraints result from poor governmental structure, discussed earlier; shortages of competent personnel; and often—in view of the complexity of problems and the rapid pace of change—a dearth of reliable data to guide effective administration. Money is, nevertheless, one critical element in meeting urban problems. Throughout metropolitan America—as the preceding chapter underscores—there is a pressing need for both more adequate and more equitable financing of essential public services.

Significant steps by the Federal Government are urgently needed to help deal with the crisis of urban financing. We offer specific proposals on that score in the next chapter. But most of the action needed must be at the State-local level. The States have a major share of the responsibility because of their ultimate legal control over the property tax system and other local taxes and because of the close relationship between State and local government finances.

We therefore submit recommendations that mainly contemplate State and local government action toward a broader and fairer base for urban financing. Our proposals are for—

Broadening the base of State taxation by significant use of both a personal income tax and a general sales tax, including authorization for local governments to impose supplementary rates on a piggy-back basis;

A review by each State of its pattern of

State-local relationships to provide a more effective and equitable means of State aid to local school financing; assumption by the State government of financial responsibility for non-Federal public welfare costs; and provision of incentives in State grant programs to improve local governmental structure;

Reexamination by State and local governments of the potentiality of user charges to finance public services;

State legislation for increased regionalization of property taxation for public schools in metropolitan areas, utilizing a countywide or multicounty taxing area, with proceeds allotted to school jurisdictions as prescribed by State laws;

Joint Federal-State-local action to establish a system of interstate metropolitan taxing areas under which, by State and local decision, a supplemental rate could be added to the Federal income tax with proceeds returned to the local governments involved; and

State legislative action to improve the property tax by eliminating unenforceable features, professionalizing the assessment function, moving to full-value assessment, ascertaining and publicizing assessment ratios, and providing effective taxpayer appeals machinery.

### A BROADER FINANCING BASE

Some defects of the property tax are inherent in its very nature, and can only be handled by limiting reliance upon this form of taxation to some reasonable level.

In the nation as a whole, about five-sixths of all local tax revenue in metropolitan areas is obtained from the property tax. Even when intergovernmental receipts and nontax sources are added, property taxation accounts for nearly half of all urban government revenue. Property taxation supplies nearly as much revenue as all other State and local taxes combined.

There is marked geographic variation on this score. The property tax portion ranges from

less than one-fifth to more than two-thirds of State-local tax revenue in various individual States. Similar diversity appears in effective rates of property taxation: for example, for single-family houses in 122 major cities in 1966-67, from less than 1 percent in nine cities up to more than 3.5 percent in four cities at the other extreme.<sup>1</sup>

These variations reflect the differing degree to which various States have placed increasing reliance on nonproperty tax sources. The proportion of all general revenue of State and local governments obtained from property taxation ranges from less than 20 percent in a few States up to more than 40 percent in a number of others.<sup>2</sup> This helps to account for the interstate range of nearly four-to-one in property tax revenue per \$1,000 of personal income, as against the much narrower range of only 1.6-to-one in the relation of total State-local general revenue to personal income.

Relative de-escalation of the property tax will depend, above all, upon further State action toward increased tapping of other revenue sources.

#### **Recommendation No. 1—Move to balanced State-local revenue systems**

The Commission recommends that those States which have not done so move as rapidly as possible toward a balanced State-local revenue system which, besides providing for equitable property taxation, involves significant use by the State of both a personal income tax and a general sales and use tax. We also urge that States which have not done so consider granting authority for local governments to impose limited supplementary rates of income or sales tax, to be collected and returned by the State to the taxing jurisdictions.

Thirty States now impose both personal income and general sales taxes; in 17 of these States, local sales taxes are also authorized (usually with State collection and distribution), and two States authorize local supplements to State income taxes.<sup>3</sup> Thus there is widespread precedent for the main thrust of our recommendation, which takes account of two major elements of fiscal reality: (1) strongly rising needs and expectations for public services at both local and State government levels; and (2) the prospect that additional Federal Government financing, although highly desirable, cannot be

expected fully to meet these growing requirements.

It would be unrealistic and irresponsible to urge expanded State participation in the financing of urban needs without recognizing also, as we do in this proposal, the question of how the necessary funds are to be obtained. Fortunately, recent action in numerous States provides a helpful guide. In particular, effective means have been devised to maintain the productivity of general sales taxes but at the same time to remove their regressive impact upon low-income people. Such arrangements, which originated in Indiana and have since spread elsewhere, involve a special crediting in State income tax laws. Either by exempting food and medicine, or by appropriate credits (under income tax formulas) for taxable purchases of such necessities, it is possible to avoid inequities that otherwise arise with general sales taxes. We commend the sales tax, with such features, as one element of a balanced tax system which would help stem excessive property tax levels.

The three types of tax referred to do not, of course, account for all of the States' financing arsenal; we have further suggestions to offer in a later chapter with regard to the taxation of land. However, these "big three" are of primary importance: 70 percent of all State-local tax revenue is obtained from property, general sales, and personal income taxes. Their respective percentages in calendar 1967 were as follows: property, 43.1; general sales, 16.7; personal income, 9.8.<sup>4</sup> It is increasingly clear that *both* general sales taxes and personal income taxes must be used by State and local governments if urgent public service needs are to be met without an undesirable further increase of property tax rates in many areas. (Where property taxation is very low, balance of course would be achieved by raising the level.)

All or most of the added funds from a broader tax system would best be collected by the State governments, even though destined for distribution in large part to local governments. Related State action is therefore indicated concerning their grant-in-aid programs. Present State-local fiscal patterns are generally the result of historical problem-by-problem handling. In very few instances have State grant-in-aid systems been subjected recently to comprehensive reexamination and overhauling.

#### **Recommendation No. 2—Review and revision of State-local fiscal relations**

The Commission urges State governments to review intensively and where appropriate to revise their existing arrangements for

<sup>1</sup> U.S. Bureau of the Census, *Property Tax Rates in Selected Major Cities and Counties* (Preliminary Report No. 5, 1957 Census of Governments).

<sup>2</sup> U.S. Bureau of the Census, *Governmental Finances in 1965-66*.

<sup>3</sup> Advisory Commission on Intergovernmental Relations, *State and Local Taxes: Significant Features, 1968*.

<sup>4</sup> U.S. Bureau of the Census, *Quarterly Summary of State and Local Taxes, October-December 1967*.



State-local fiscal relations so that, as a minimum:

(a) Each State provides a generous foundation program for local school financing;

(b) Educational grant formulas take account of the additional costs of enriched school programs for economically and culturally deprived children;

(c) Each State government finances all or substantially all public welfare costs that are not covered by Federal aid; and

(d) Various State grant programs include appropriate incentives toward improved local government structure, including the development of major viable multipurpose governments in metropolitan areas.

We emphasize financing requirements for education and public welfare on obvious grounds. Public schools make up by far the most costly single elements of local government, and their benefits are not limited to small local areas but have a widespread impact in our increasingly mobile society. The States' responsibility for underwriting a sizable share of public school costs thus is socially and economically justified, as well as consistent with the legal framework for public education in most States.

Provisions are widespread for State grants to underwrite certain excess costs of public schools in sparsely populated rural areas, particularly in the form of aid for pupil transportation. Various programs exist also for special State aid for educating physically handicapped children. Until recently, however, State grant systems have rarely made any allowance for the overburden involved in providing, through local public schools, enriched programs for economically and culturally deprived children. We urge specific State attention to this as one desirable component of State school-aid systems.

In about half the Nation, public welfare costs are financed nearly entirely from State and Federal sources. However, in States where such an arrangement does not apply, the locally financed portion represents a significant burden, adding materially to property tax requirements. This cost component is likely to be especially onerous because it tends to vary inversely with local fiscal capacity. Moreover, such financing arrangements commonly place a heavier burden upon major central cities, where so many poor families are located, than upon most suburban communities.<sup>5</sup> We strongly urge, therefore, that those States which have not done so assume direct responsibility for sub-

stantially all public welfare costs that are not financed by the Federal Government. The same reasoning justifies generous State underwriting of other important though less costly poverty-linked services, such as those in the field of public health.

Intensive review of existing grant-in-aid programs in any particular State should take account of the relation of such grants to local government structure. As shown by experience with State aid to local school districts, fiscal aid may be deliberately used to encourage desirable structural changes, or on the other hand, may actually tend to shore up outdated institutions.

**Recommendation No. 3—Increased local government use of user charges, where appropriate**

The Commission urges that local governments reexamine intensively their existing practices with regard to service and benefit charges, and make adjustments needed to put appropriate services on a self-sustaining basis. We also urge the State governments to encourage and assist local governments in such efforts.

User charges already represent a significant revenue source for urban local governments. However, there is great variation: some governments use them to an important extent, while others in effect make the general taxpaying public subsidize various activities which provide selective benefits. Although user charges have little relevance to some costly services, such as education, public welfare, police and fire protection, they can be an important resource for financing of urban highways and parking facilities, water supply and sewers, waste disposal, and recreational activities.

User charges can help to hold property tax requirements within reason and to provide equity between taxpayers and specially benefited users of various services. Two other aspects of this proposal deserve particular attention: (1) User charges can help to prevent excessive or wasteful levels of user demand—illustrated by carelessness in water consumption where no metering applies, or by excessive urban street congestion in commercial sections where street parking is allowed free or at only very nominal meter rates; (2) With rising levels of urban government salaries and other expense factors, the fees or prices set for particular public services need to be periodically adjusted lest charges lag seriously behind related costs.

A word of caution should be added about balancing or choosing between user charges and taxes for particular activities. Most urban government services have an important element of general public benefit; for example, an adequate

<sup>5</sup> See ch. 8, pp. 409–410.

sewer system is of major concern to the community as a whole, not only to individual households. Unless such social factors are sufficiently recognized, the more attractive sound of charges than of taxes may encourage excessive use of charges, with undesirable or inequitable results. In fact, some municipalities substantially subsidize their general government needs from the revenue surpluses of their water supply or electric power utilities. This is the effective equivalent of placing a high excise tax upon the utility services involved. Such taxation may, obviously, be even more regressive or otherwise undesirable than the use of the property tax or other available means of financing. Benefit charges are also sometimes misused in a potentially discriminatory fashion—for instance, by imposing fees for admission to local parks, in order to limit their use to nearby or socially desirable patrons. While reasonable charges may be justified for the use of some public recreational facilities (e.g., golf courses or marinas) that have a selective appeal, it is of major social importance that facilities which serve more basic needs be available at little or no direct cost.

Thus we are not urging the maximum possible use of benefit charges but their greater application in those instances where, in the light of careful consideration, they offer an economically and socially desirable substitute for taxation.

#### *Regionalizing school costs*

Public education involves by far the largest component of local government activity. This function typically accounts for about four-tenths of all local public expenditure in metropolitan areas, and an even higher fraction elsewhere.<sup>6</sup> A sizable portion of local education expenditure is financed from State and Federal grants, and such aid should continue to grow, as we urge above. However, a major part of school spending is met from local sources, principally property taxation. The base for such financing is fractionated geographically, and in most metropolitan areas there is a considerable range in the relative fiscal capacity of school-administering governments. Basic restructuring of local government and provision of increased Federal and State aid are needed to help meet this situation, but another approach is also widely indicated.

#### **Recommendation No. 4—Countywide or multicounty taxation for public schools.**

**The Commission recommends that States provide that a significant proportion of all local property tax support for public schools**

**be supplied through levies imposed by countywide or multicounty school taxing districts, with the proceeds allocated to school-administering units on a State-prescribed basis.**

This proposal has limited relevance where public schools are already administered (and locally financed) through countywide units. For a number of other States also its adoption would mainly involve an expansion of existing arrangements that provide some countywide taxation for school purposes. Usually, however, such county levies are only minor, and most States lack any such device for spreading the local tax burden for education.

Local public education is a highly logical candidate for a broader local base on several grounds: because of its costliness, it makes up a sizable part of local property taxes everywhere; it permits a simpler basis for allocation of funds than could apply to many other local government services; and the benefits of public education, in our increasingly mobile society and economy, reach out far beyond individual school administering areas.

State action along this line would end part of the substantial escape from property taxation which is now enjoyed in various local tax havens. By curtailing present wide disparities of property tax rates in metropolitan areas, it would reduce incentives toward socially undesirable fiscal zoning, and, perhaps, also lessen resistance to the more basic restructuring of local government which is so urgently desirable in many areas.

The Commission is not proposing here a regionalization of education, but rather of *property taxation for educational purposes*. Neighborhood schools as service units and school systems as administering entities would not be replaced, but a larger part of their financing would come from a geographically broader base.

#### *Interstate metropolitan taxing areas*

Most of the foregoing discussion has referred to steps toward a broader and fairer base for urban government financing that can—and should—be taken by State and local governments. Effective action along the lines suggested, we are confident, would be highly productive. Moreover, we are sure that the problems of urban government must continue in the future as in the past to be handled mainly by local and State action. Not only because of the structural inheritance of our Federal system but for a host of other reasons, the role of the National Government can at best be selective and indirect, stimulative and helpful—especially in financing. The National Government is *not* suited to take on directly any sizable part of the

<sup>6</sup> See ch. 8, pp. 409–410, tables 1 and 3.



responsibilities traditionally handled at the State and particularly at the local level. Hence the concern we have expressed for a more effective structure of local government, especially in major urban areas.

Even widespread action on all the matters discussed above, however, would not fully deal with a financial problem that is especially pertinent to metropolitan areas which cut across or are adjacent to State boundaries. In 1960, such areas had more than 41 million residents, or nearly one-fourth of the Nation's total population. For any such area, problems of local disparities in fiscal capacity and of constraints upon tax policy become interstate in nature. But no effective means is now available to deal with such problems on an areawide basis, *involving concerted action by governments on both sides of the State boundaries*. As a result, each of the States concerned is likely to encounter special difficulty in carrying through desirable actions it might otherwise undertake. For example, a vigorous effort by various means to get rid of tax havens in one State's portion of such an interstate area would face the threat of traditionally privileged businesses moving to low-tax parts of the area in the neighboring State.

#### **Recommendation No. 5—Supplement to Federal income tax in interstate metropolitan areas**

**The Commission recommends, for consideration by Congress and the various States concerned, enactment of a system by which a supplemental rate of personal income tax could be applied within interstate metropolitan areas, to be collected directly in conjunction with the Federal income tax and with the proceeds returned to appropriate local governments.**

It should be emphasized that, if such a system is developed, the supplemental tax rate would be imposed by local or State action, rather than by the Federal Government; the proposal thus contemplates a "piggyback" arrangement like that now widely used for locally imposed, State-collected supplements to State sales taxes. The plan might operate through certification by the Governors of the affected States that a favorable vote in an areawide election had favored the imposition of a supplemental rate for Federal collection and return, and with allocation of the resulting revenue to be as specified by the respective Governors in accordance with statutory provisions in their respective States. Appropriate Federal legislation should no doubt (as in the case of the States' "piggybacking" provisions) set a limit on the supplemental rate available, and on the frequency of allowable change or cancellation; at least for administrative rea-

sons, it might even be found desirable to provide for only a single available rate of supplementation, subject to "yes-or-no" action by eligible areas.

It is obvious that the design of a workable system of this nature demands careful analysis of many factors, so that it would be presumptuous to spell out proposed features in complete detail. The suggested basic approach, however, deserves thoughtful and sympathetic consideration on several grounds:

(1) An advantage already noted would be to reduce the constraints upon otherwise desirable action concerning urban government structure and financing that apply uniquely in interstate metropolitan area;

(2) Another advantage is the opportunity it would open for increased local use, in an efficient fashion, of income taxation as a partial substitute for property taxation. A limited number of local governments (mostly sizable municipalities) already administer their own personal income taxes, but in most instances these apply only or mainly to salaries and wages. It is generally agreed that separate taxes of this nature cannot be nearly as well administered locally as on a State or National basis. Only two States have thus far authorized local "piggybacking" on their State income taxes; while further action of this nature is probably desirable and likely (despite problems of appropriate revenue allocation where local governments are numerous) it cannot operate on an interstate basis.

#### **INCREASED EQUITY IN PROPERTY TAXATION**

The foregoing recommendations relate to the widespread need for deemphasis of the property tax. They propose action that is critically desirable in many areas, especially because of inherent defects of this form of taxation which limits its desirability as a predominant revenue source. But such basic action cannot come overnight. In the meantime financing needs for urban government continue to mount. Moreover, it would be most unrealistic to expect that these needs can be fully met from increased Federal aid. In recent years, the *annual rise* in local property tax revenue has been considerably larger than the total *annual amount* of Federal grants to local governments. Replacement of even one quarter of present local property tax yields would require a threefold increase in Federal grants to local governments.

In other words, in the years immediately ahead the property tax must continue to be

counted on for very large sums. And, however, vigorous the effort may be to tap other revenue sources, it must be accompanied by effective steps to reduce existing defects of the property tax.

There is ample evidence that many property tax ills are not beyond remedy, but arise from faulty laws and administration. The best proof is that some areas have far better property tax administration than the prevailing average.

Public disillusionment with the property tax as it now operates is becoming widespread. This in turn tends to encourage indiscriminate loopholes or exemptions that make this tax even more difficult to administer fairly. Without corrective action to make the property tax worthy of respect, the existing inequities are likely to become worse.

#### *Property tax assessment*

As the general property tax system is usually intended to operate, a levy is applied at a uniform rate to official valuations for all items of taxable property within a particular area. It is an *ad valorem* tax—a tax on values. Purely from the standpoint of the intent of this kind of tax (for example, without considering whether the value of property is an equitable basis for taxation), complete equity under the law is achieved only if (1) all property legally taxable is actually listed, and (2) all items are valued on a uniform basis, i.e., either at their actual current worth, or at the same percentage of current worth.

Perfection is unattainable in practice. Not all taxable property is listed, particularly where coverage extends to certain elusive forms of personal property. A greater barrier to perfection is that, for most taxable property, current worth is not determinable with exactness. This is why competent appraisers evaluate the same properties somewhat differently, and why closely comparable houses in a particular neighborhood change hands at different prices. Current worth of most real estate is less subject to question if expressed as falling within a range rather than as a precise point. Thus, a reasonable statement of the goal of equity in property taxation would add the word “substantially” to both objectives—substantially complete listing of taxable property, and substantially uniform assessment.

To note that property evaluation is not a precise science or art does not contradict the need for reform. Actual performance throughout most of the country is far, far below the appropriate goal. Incomplete listing, mainly concerning personal property, is discussed later under “Property Tax Coverage.” Nonuniformity of assessment mainly concerns the far larger portion of the property tax base represented by real

estate. The reasons that assessing practices in most parts of the country fall far short of a reasonably attainable standard include the following:

- Excessive decentralization of assessment responsibility;

- Assignment of assessing in most areas to officials who are selected by popular election and for whom there are no prescribed standards of education or training despite their complex duties;

- Limited and understaffed State participation in the process of property tax assessment;

- Absence of the correctives generated by an informed citizenry, due to popular misunderstanding or ignorance about the basic elements of property taxation;

- Clouding of the relation between values and assessments by the common practice of assessing property at minor fractions of current worth;

- A prevailing lack of reliable statistics that would enable interested taxpayers to judge even the approximate fairness of assessed valuations for their property holdings; and

- A widespread lack of convenient, usable machinery for taxpayer appeals against questionable assessments.

#### *Property tax coverage*

There are two major problems with property tax coverage. The first arises because the property tax laws of many States apply to some kinds of personal property that, experience shows, cannot be fully located and equitably valued.<sup>7</sup> The results include unjust burdens for conscientious owners of such property and, for assessing officials, either a diversion of attention from more important duties or a “blinking” at widespread tax evasion, which promotes public distrust and cynicism about taxation and government generally.

The second coverage problem relates to property tax exemptions. Complete exemptions apply to ownership (property holdings by governments) and use (noncommercial uses of property held by educational and charitable bodies). Other exemptions are partial, providing a discount against assessments—through homestead exemptions and other devices to provide relief to homeowners, veterans, the elderly, industry, farmers or other owners of urban-fringe land, country clubs, and so forth. Rising property taxation has stimulated a host of recent efforts along these lines. When exemptions

<sup>7</sup> As to general property tax coverage of various types of personal property, see U.S. Bureau of the Census, *Assessed Valuations for General Property Taxation* (Preliminary Report No. 4, 1967 Census of Governments).



are enacted, they narrow the property tax base and accelerate the rise in rates.

#### **Recommendation No. 6—Improvement of Property tax**

The Commission urges early and widespread action by State and local governments to improve the property tax by—

(a) Limiting its legal coverage to forms of wealth that can be effectively reached and valued through such taxation, minimizing exemptions, and tailoring with great care any property tax relief provisions;

(b) Providing appropriate machinery for assessment work, with responsibility assigned to well-staffed and professionally directed jurisdictions which are large enough to employ modern equipment and techniques;

(c) Moving as fully and rapidly as possible toward full-value assessment of taxable property;

(d) Conducting and publicizing the results of careful studies of assessment ratios, and publishing related data about property taxation on a regular basis; and

(e) Providing effective appeals machinery for taxpayers.

These proposals are not equally applicable everywhere. Some States are far ahead of others in the quality of their property tax systems. But some portions of the foregoing recommendations have an important potential for every State.

We are not proposing any untested novelties of property tax law or practice. Precedents exist for all the types of action we urge. Our proposals generally parallel those which are urged by the Advisory Commission on Intergovernmental Relations, in the most authoritative contemporary work in this field, "The Role of the States in Strengthening the Property Tax." That report has helped to stimulate important statutory and administrative changes in various parts of the country. But accomplishments thus far are only a minor part of what remains to be done. In the 5 years since that Commission report was published, property tax collections in the United States have totaled some \$120 billion, and this total in the next 5 years is likely to go well beyond \$150 billion. The Nation cannot afford continuing serious inequities in the collection of such huge sums for public purposes.

The remaining portion of this chapter considers separate aspects of recommendation 6 in greater detail.

#### **(a) Limiting coverage, exemptions, and tax relief**

The Commission recommends that States: (1) revise their laws and constitutional provisions relating to the property tax so as to limit its coverage, at most, to real estate, tangible personal property used for income-producing purposes, and motor vehicles; (2) avoid the enactment of partial exemptions for particular types of private property owners, and wherever possible repeal existing provisions of this nature; and (3) use means other than preferential assessment in efforts to limit the burden of onerous residential property taxes for low-income families, or to limit the inhibiting effect of property taxation upon the sound maintenance or renovation and improvement of residential property.

##### *Basic legal coverage*

The first portion of this recommendation is based upon the fact that—

\* \* \* the extent to which some personal property tax laws have become legal fictions is notorious. Evasions and the condoning of evasion are so widespread as to make such laws a tax on integrity \* \* \*. This condition \* \* \* creates for the property tax system an unhealthy disrespect.<sup>8</sup>

Competent observers differ as to whether income-producing personal property should be legally subject to property taxation. Those in favor point out that such coverage avoids discrimination by the property tax system against those income-producing activities (such as agriculture) which involve a relatively large investment in real estate as compared with equipment and inventories. They also argue that the location and equitable valuation of such property do not involve insuperable difficulties. On the other hand, gross deficiencies exist in the assessment of income-producing personal property. This fact has led a number of States to exclude such property legally from the tax base, and is cited by various competent and disinterested authorities who urge similar action elsewhere. A less sweeping middle road proposed by the Advisory Commission on Intergovernmental Relations calls for complete exemption for business inventories—but not for such other income-producing personal property as business equipment and agricultural livestock.

States differ in their property tax treatment of motor vehicles. Some provide complete exemption, generally with appropriate adjustment of their car license fees. Since this type of property clearly can be listed and reasonably

<sup>8</sup> Advisory Commission on Intergovernmental Relations, *The Role of the States in Strengthening the Property Tax*, Washington, D.C., June 1963, p. 8.

valued, it is a feasible candidate for inclusion in the property tax base, although alternative tax forms may be at least as desirable.

Any significant base-narrowing action in line with our recommendation is likely to involve problems of revenue replacement, with differing impact for various areas and individual local governments. Gradual rather than abrupt adjustment is probably indicated, perhaps with some related revenue offset provided through State aid.

In any event, a major consideration in every State as to desirable property tax coverage should be: Can the law be applied with a high degree of effectiveness and equity? Unless official intentions, public attitudes, and the assessment machinery promise an affirmative answer for all major property components legally covered, sound policy requires a narrower tax base for which adequate enforcement can better be assured.

#### *Assessment exemptions*

We emphatically urge that the trend toward riddling of the property tax base by preferential exemptions for particular types of private property owners be stemmed and, where possible, reversed. Provisions of this nature have developed to promote homeownership, to aid veterans and the elderly, or to attract new industry—often socially desirable or accepted objectives. The question here is not with objectives but with the use of these methods. Although they appear to involve no direct public cost, such provisions (1) result in increased expense for taxpayers to whom the burden is shifted; (2) progressively weaken the property tax system; and (3) complicate administration. Like many other legalized tax loopholes, any social benefits they may yield generally are provided at grossly excessive cost, and with that cost substantially lost from public view. Sounder policy would involve open regular subsidies for socially defensible purposes, requiring appropriation and expenditure action.

Partial exemptions differ in their relative effect upon the tax base of various local jurisdictions. It thus would be appropriate (as proposed by the Advisory Commission on Intergovernmental Relations and as actually done in a few States) for local revenue losses resulting from such State-mandated exemptions to be made up by State grants.

We have discussed elsewhere related questions raised by the proposal, now widely heard and in a few instances already enacted, to provide preferential assessment of urban-fringe land which is used for agricultural purposes.

Our specific recommendation relates only to so-called partial exemptions, and does not deal with exemptions commonly extended to prop-

erty owned by governments and by religious, educational, and charitable organizations for noncommercial purposes. Exemptions of this nature are so widely and firmly built into the property tax system that it is unrealistic to anticipate their elimination or drastic curtailment. Moreover, efforts to substitute subsidies for the property tax exemptions of nongovernmental institutions would raise major issues of church-state relations and of potential governmental control over traditionally private (though socially oriented) activities. Nonetheless, these kinds of exemptions also create problems, especially when tax-exempt property comprises a sizable portion of particular taxing jurisdictions. The resulting impairment of the local tax base would not be so troublesome if, as we propose, urban government were less fragmented geographically. Some States ease this problem by providing special grants or payments in lieu of taxes to local jurisdictions where major State-owned installations are located.

#### *Residential property tax relief*

In some parts of the country, urban property tax rates are so high that they equal, in effect, an excise tax on housing of 25 percent or more. But because residential property makes up such a large proportion of the total property tax base, the main hope for any material cut in such high rates must rest upon increased use of other revenue sources—a shift which, as already noted, cannot be expected to occur rapidly.

In the meantime, the especially onerous impact of property taxation upon low-income families deserves particular attention and action in high-property-tax States. The problems of the poor and elderly are often cited in behalf of relatively sweeping exemptions which, if adopted, exacerbate the difficulties (as described earlier) due to a whittled-down property tax base.

A better approach already taken in some States focuses more sharply upon the residential tax burdens of low-income families. Wisconsin's property tax relief system for low-income elderly households, set up in 1964, entitles any such household with a family income of under \$3,500 to direct State reimbursement for the portion of its residential property tax that exceeds a specified percentage of the family income. Households that rent also qualify, with 25 percent of annual rent treated as property tax. The reimbursement fractions are graduated inversely with income, so that in 1966 refunds ranged from a major part of the property tax costs for aided families with income under \$1,500 down to less than one-tenth the property taxes of aided households with annual incomes of \$3,000–\$3,500. Minnesota recently enacted similar provisions.



In 1967 Michigan adopted a broader plan, in the form of a credit against its newly enacted (flat-rate) State income tax. Under this plan, homeowners may deduct from their income tax (or claim cash reimbursement of) a percentage of their property tax payments, graduated from 20 percent of the first \$100 of property tax down to 4 percent of property tax in excess of \$10,000. Renters may take similar credits, treating 20 percent of gross rent as property tax.

Oregon offers yet another type of relief tailored to aid poor elderly homeowners. A qualified household wishing to do so may avoid current property tax payment by accepting a lien, running at interest, upon its property. The tax bill is paid by a State fund, which is reimbursed from the taxpayer's estate at his death.

These are examples of less costly and more equitable methods than sweeping homestead exemptions or other disruptive forms of preferential assessment for easing the impact of residential property taxation for needy families. We urge continued imaginative action along these lines, especially by high property tax States.

Another type of residential property tax relief merits careful attention and legislative action, especially in States where rates are relatively high. This would involve a temporary abatement of the tax with regard to all or a considerable part of property owners' expenditures to rehabilitate older housing. Especially where rates are high, the property tax tends to deter socially desirable improvements of this kind; some owners avoid or postpone repairs and alterations which might result in material tax increases. Desirably, any such tax abatement provisions—

- (1) Should be limited to relatively old housing, in order to hold the revenue cost within bounds, and to focus upon the most critical component of the housing stock, and to prevent abuses (such as successive-stage enlargement or improvement of relatively new structures in order to obtain the tax benefits);

- (2) For similar reasons, should apply for only a limited period (perhaps 3, 5, or 8 years) after any such expenditure is made; and

- (3) Should be so designed as not to interfere with sound assessment; whether operating through a tax-credit allowance or a limited-period partial exemption from tax, the arrangement should not reduce incentives for equitable assessment of all properties at a high fraction of their current value, or prevent the measurement of assessment performance.

State legislation might authorize local jurisdictions to grant such tax abatements, but probably a statewide system, in view of the usual layering of local taxing areas, would be preferable. Any kind of property tax relief needs to be carefully designed so that current abuses are not multiplied and so that curtailment of the property tax base is kept within reasonable bounds.

#### **(b) Appropriate machinery for assessment work**

The Commission recommends that the States undertake an early and drastic overhauling of their institutional arrangements for property tax assessment. They should provide for (1) assessment directly by a State agency or, with State technical supervision and cost-sharing, by major-county and multicounty jurisdictions with a population of at least several hundred thousand persons; (2) the elimination of popular election as a basis for selecting assessors; (3) establishment and enforcement of appropriate standards of education and technical experience for assessment personnel; and (4) transitional arrangements designed to retain for assessment work experienced and qualified staff presently so engaged.

Prevailing arrangements for property tax assessments are ridiculous. It would be hard to find any other inherited feature of American Government that is more out of line with modern conditions, or that reflects a more fallacious notion of the nature of the task involved.

These arrangements took shape decades ago when America was primarily a rural nation. Taxable wealth—in the form of farm property—might not unreasonably be valued by local amateurs, but such property makes up only a small fraction of today's property tax base. Most of the base consists of urban residential, commercial, and industrial property, with three-fourths of the total value located in metropolitan areas. The diversity of such taxable wealth is so great, and the factors affecting its value are so complex, that the unskilled amateur cannot be expected to assess it fairly.

Important new developments—in mapping, automated data processing, and statistical analysis—provide tools to deal more adequately with many aspects of assessment work. But most of these new tools can only be used economically and effectively, if at all, on a large-scale basis. This is one reason why competent observers universally advocate less decentralized assessment. A report prepared for this Commission by Dick Netzer concluded that adequate assessing for predominant classes of taxable property would require “\* \* \* profes-

sionalization and adoption of truly systematic procedures—indeed, full computerization of the primary assessment process.” Dr. Netzer continued: “These in turn imply large-scale assessment organizations. Except in the very largest States, this may very well imply statewide assessment; it surely is not consistent with assessment districts having populations of very much less than 500,000.”<sup>9</sup>

This is a far cry from existing conditions. Only a comparative handful of assessing jurisdictions are so large, and only Hawaii deals with property assessment entirely through a State agency. Assessment work now is handled mainly by more than 14,000 local assessing jurisdictions, of which over 98 percent have a population of less than 100,000.<sup>10</sup>

This situation would be less ridiculous if the task of property valuation involved the *setting of basic public policy*. If that were the case, a degree of inefficiency and inequity might be viewed as the reasonable price of keeping government “close to the people.” But assessment is a technical, not a policymaking, job. Essentially, it calls for a conscientious effort to *carry out* public policy, as expressed by laws which indicate the kinds of property to be assessed and which specify the concept of value to be applied. Within this policy framework, the assessor’s legal responsibility is to do as complete a listing and as uniform a valuation job as possible.

This does not mean that the assessor need not exercise judgment. To be well performed, his task demands not only technical background and skill but a high order of integrity and sound judgment. But his judgment is needed in determining how best to carry out the provisions that govern property assessment rather than, by administrative action, to determine what those provisions should be. His proper and legally intended role is not unlike that of a policeman, who is expected to use sound judgment in handling particular instances of law violation but who has no authority to decide what particular ordinances and laws he will choose to enforce from the standpoint of his idea of sound public policy.

Two main factors have contributed to misunderstanding of the proper legal role of assessors, and have permitted or encouraged their exercise of policymaking power. One is the persistence in some States of provisions which call for assessment and taxation of various types of personal property that cannot be located

and properly valued without grossly excessive effort, if at all. As noted above, such provisions understandably result in varying degrees of exemption through action by assessors. The other and more important factor involves the role that is widely assumed by (or sometimes thrust upon) local assessors to determine a “reasonable” or “feasible” fraction of full value at which property should be officially assessed for tax purposes.

Historically, when many States added a State property tax levy to local levies, and were often poorly equipped to measure and adjust for differences in local assessment levels, there was some logical local incentive for competitive undervaluation. Even today in some States the assessment level may, through statutory limitations that refer to assessed valuations, directly affect the taxing or debt-incurring powers of local governments. Under such circumstances, the assessor’s policy as to assessment level is a major budgetary action that is more properly handled by local governing bodies.

Many States have sought to eliminate or reduce the effects of differing local assessment levels: by dropping State property tax levies, providing equalization machinery, and adjusting tax and debt limitations and State-aid formulas to take account of differences in level ascertained through assessment-ratio studies. With sufficiently effective efforts of this nature, the official level of assessment loses much significance, except in two ways: (1) by the effect that the *height of the average level* may have upon the *uniformity of assessment level* for individual properties and (2) by its possible indirect effects upon the budgetary policies of local taxing jurisdictions. The first of these points is more fully discussed later. The second may be briefly explained here.

For the property owner who faces a tax bill equal to some fraction of the current value of his property—say 2 percent—it should not matter whether the amount due has been figured at a high rate against a low assessment level (say an 8-percent rate against 25 percent of full value) or directly (a 2-percent rate on full value). A switch from one basis of billing to the other should not really disturb him, as long as the sum he is expected to pay is not increased. The same might be said for all taxpayers in a particular jurisdiction: if valuations and official levy rates change in mutually offsetting fashion, nobody would experience any change in his tax bill or his relative share of the area’s total tax.

But the situation is muddled in the public mind because the same officials do not set assessments and levy official tax rates, and because of a difference in timing for these steps. Assessors

<sup>9</sup> Dick Netzer, *Impact of the Property Tax: Effect on Housing, Urban Land Use, Local Government Finance* (The National Commission on Urban Problems, Research Report No. 1), p. 60, 1968.

<sup>10</sup> U.S. Bureau of the Census, *Primary Assessing Areas for Local Property Taxation*.



determine assessments, elective local governing bodies levy the rates. These governing officials are understandably happy if the assessment base grows as rapidly as their needs for property tax revenue; this permits them to "hold the line" on the official tax rates. Even if the total assessment increase results from an upward adjustment of earlier valuations (rather than only from new improvements) so that individual tax billings are increased, the tax levying bodies may avoid some of the criticism that would result from an equivalent tax *rate* increase. The assessor, similarly, has an interest in letting any blame for higher bills appear to result from tax levying rather than from assessing action. Thus local assessors—most of them popularly elected—have found it difficult to move traditionally low levels of assessment up nearer to full market value. Given the political realities, in fact, it is rather remarkable that assessed valuations in most parts of the country have apparently kept pace—although at a fractional level—with the rapid rise in market value of taxable realty during the past decade.

As a net result, the exercise by assessors of policy decisions on the fractional level of valuations probably does influence the spending and taxing decisions of local governing bodies, even when the latter are not closely bound by tax and debt limitations. In short, the public's limited understanding of the real nature of the property tax results in a split in budgetary responsibility and contributes further to the buckpassing previously discussed in connection with the layering and multiplicity of local governments.

We urge a clarification of the basic policy-making role of local governing bodies, as distinct from the ministerial task of the assessor. Technical skill, rather than political popularity, should be the prime requisite for assessors. The States need to move as vigorously as possible to eliminate inherited provisions for election of assessors, and to provide instead for their appointment in accordance with State-set qualification standards. Action in this direction should include transitional provisions designed to attract and keep competent assessors who have previously been chosen through popular election.

### (c) Moving toward full value assessment

The Commission urges that the States reaffirm the principle of "full value assessment" which in a majority of instances is expressed, directly or implicitly, in their present constitutions and property tax laws, and that they take steps to assure the most rapid possible progress toward substantial compliance with this principle in official valuations for property taxation. We also strongly

urge that the States retain and apply, without impairment, the long-established and generally accepted legal principle that property subject to general property taxation should be assessed as uniformly as possible in relation to its market value, irrespective of the income status of particular property owners and of the past or present income yield of particular pieces or types of property.

The first portion of this recommendation concerns the prevailing practice of "fractional assessment." In all but a handful of States, taxable property is typically assessed at less than half its current market value, and the national average level of assessment is less than one-third of full value. Fractional assessment contributes, as noted earlier, to the undesirable split of local budgetary policy between assessors and responsible tax-levying bodies; it contributes to the uncertainty and onerous effects of State-prescribed limitations on local indebtedness and property tax rates; and above all it increases the likelihood of gross discrimination of assessment among various classes and among individual pieces of taxable property.

The argument for the closest possible approach to full-value assessment does *not* rest upon the premise that this would increase the total base for property taxation (which it would not directly do). But there is ample evidence in careful State studies and in Census of Government surveys that fractional assessment, by muddying the water and misleading the tax-paying public, greatly increases the likelihood of excessive variations in assessment level for individual properties.

The reason is evident when one considers the attitude of a property owner under rather typical circumstances. With a home he considers worth about \$20,000, he may think he is getting a break to find it officially assessed at only \$7,500. If he is well versed enough to have heard that assessments in his area are claimed to be at around 40 percent of full value, he still feels that he is doing all right, for this would suggest an official estimate of sales value for his house of less than \$19,000. But if the general average level actually is only 32 percent, his assessment is really out of line upward (taking the owner's estimate of market value as sound) by more than one-sixth. The effect is the same—if there were an effort at full-value assessment—as though this particular house were being officially valued at \$23,437.

It may be argued, of course, that the inequity in this case results mainly from misrepresentation of the prevailing level of valuation, and that the results sought with full-value assess-

ment could be served as well by giving wide publicity to the fraction that actually is being applied. Some States have taken useful steps in this direction, and all should do so, as we recommend below. However, the argument can be turned around to ask: What is gained by the extra complication of using a publicized fraction, rather than dealing in terms of current market value, which has more direct meaning for ordinary property owners? Only two answers have any real underlying logic: (1) Since valuation cannot be absolutely precise, and many owners' ideas of value may be somewhat exaggerated, direct use of market value assessment might stimulate an unmanageable flood of taxpayer appeals; and (2) fractional assessments are so ingrained in property owners' attitudes and local taxing arrangements that an abrupt shift to full value would be politically impossible as well as financially disruptive.

The first point suggests an answer along the lines of recent California legislation, by which taxpayers who wish to appeal a particular assessment must be prepared to demonstrate that it exceeds *by more than some legally specified fraction* the assessment level that is officially stated for the particular area.

The second point also deserves careful State provisions to enlist public understanding and support for any significant shift toward full-value assessment as well as related adjustments of laws and practices which have been based upon prevailing fractional assessment. A minimum start in this direction would involve reporting to each property owner not only the assessed value but also the assessor's estimate of the full value of his property. This is already done in some areas. An important related step would express the actual *tax* in relation to full value as well as in relation to the fractional assessed value. In California (which now requires counties to aim at an assessment level between 20 and 25 percent, to announce the local official ratio, and to achieve a 25-percent average by 1971-72) the following plan has been described as a means for transition to 100-percent assessment:

The first step was to be the attainment of a 25-percent ratio \* \* \* so that the numerous statutory changes in tax-rate limits, debt limits, and the like, that would have to be made would operate with substantial uniformity throughout the State \* \* \*.

Then there was to be set out on the tax bill the full value as well as the assessed value at this 25-percent level. The tax rate was to be expressed both as a rate per hundred dollars of assessed value and as a rate per thousand dollars of full value. This arrangement was to last for a period of 4 years so that people would become accustomed to this new statement of a tax rate \* \* \*.

After the 4-year transition period, during which there would be ample opportunity to locate all statutory provisions that needed to be conformed, the 25-per-

cent assessment level and the rate per hundred dollars would be abandoned, and the full value would become the assessed value to which a rate per thousand dollars would be applied. \* \* \* This is a device that can be implemented to achieve a 100-percent assessment level with not only full protection of the taxpayer, but greater protection of the taxpayer than he now has.<sup>11</sup>

The second portion of recommendation 6(c) refers to the basis of valuation that should be used for property taxation. By definition and long-standing American tradition, such a tax is and should be based upon value. As used by economists and the courts, value means what a property will sell for in an informed and open market. Value is not unrelated to a property's income yield, but it is *prospective* income rather than past or current yield that matters. And prospective income can take either of two forms—a recurrent rental return, or an increase in the market value of the property itself. If all this were not the case, urban vacant lots would be worth nothing to their owners, for in their existing form they yield no current income but involve only a recurrent cost in the form of property tax. However, like common stock shares of companies that have paid no recent dividends but still are bought and sold in the stock market, urban vacant lots *do* have a value, based upon expectations of their future worth for income-yielding purposes, as discounted back to the present time.

All this seems clear and widely acceptable with regard to urban vacant lots; it is seldom urged that such property should be exempted from property taxation because it is not providing a current income. In contrast, however, there is considerable public sympathy for farmers in urban-fringe areas who face rising property tax costs as their land increases in value, and sympathy also for owners of single-family houses on land which is rapidly converting to more intensive urban use and thereby rising in its legally taxable value. These attitudes have stimulated various types of proposed "tax relief" measures, particularly to require that property being used for agricultural purposes be assessed only in terms of its value as so used, rather than according to its market value.

We consider such discriminatory provisions undesirable, and inconsistent with effective administration of the property tax on an equitable basis. They constitute an effort to use the taxing power to bias and delay the effect of normal market forces in determining the economically best use of land. Like other broad types of exemptions or sweeping forms of property-tax relief, preferential assessment of agricultural

<sup>11</sup> Remarks by Ronald B. Welch, in Tax Institute of America, *The Property Tax: Problems and Potentials* (1967), pp. 136-137.



fringe land not only complicates the difficult problem of fair valuation; it actually involves a potentially costly and hard-to-measure subsidy at the expense of the rest of the property-owning public. And this subsidy is especially generous to those property owners whose holdings are most rapidly rising in value, as a result of population growth, urban expansion, and community-provided facilities.

If it is true, as some advocates of such legislation argue, that city dwellers stand to benefit by the preservation of nearby open or green spaces, the size and placement of such areas should be directly determined by public action, rather than at the whim of individual property owners receiving preferential tax treatment. Furthermore, the fact that a particular owner wishes to use property in a manner which yields little or no current cash return does not justify special treatment or tax abatement. The same is true for all owners of urban vacant lots.

Some proponents of this and other kinds of property tax relief argue that value-based taxation is inherently unjust and confiscatory, and that it should be replaced as fully and rapidly as possible by taxation upon personal incomes. We share their implicit view that property taxation has inherent defects which make it undesirable as a predominant tax form, as indicated by our explicit recommendation for deemphasis of property taxation in State and local government financing. However, action in this direction needs to be broad and fundamental rather than highly selective and preferential in its form. Furthermore, although personal income is widely regarded as the potentially fairest base for taxation, major difficulties arise in reaching and measuring it on an equitable basis. In fact, one of the most serious (and largely unsolved) problems of personal income taxation involves its faulty coverage of income which takes the form of increased value of property holdings rather than a current money flow. Since the property tax, properly designed and administered, does reach such taxpaying capacity, it may be regarded as a useful and desirable part of a revenue structure which also relies extensively upon personal income taxation.

#### **(d) Conduct and publish studies of assessment ratios**

We urge that (1) the States regularly carry out careful scientific studies of the relationship of assessed valuations to market value of taxable property; (2) that findings from such studies, in the form of averages and measures of dispersion for various assessing jurisdictions, be published with background information about the methods used in their

development; (3) that the States also regularly develop and publish other information concerning property taxation, including data concerning tax levies and rates for particular local areas; (4) that Congress amend section 701 of the Housing Act of 1954 so as specifically to authorize Federal aid under that section for the financing of State studies of property tax assessment ratios; and (5) that the U.S. Bureau of the Census maintain, strengthen, and improve its assembly of data regarding taxable property values and property tax rates, in connection with the periodic Census of Governments.

The first three of these specific proposals contemplate an extension and improvement of activities now being carried on in a considerable number of States. As has been indicated above, many of the faults of the property tax as it now operates can be traced to inadequate public knowledge and understanding. The most important single tool for improvement is "full disclosure"—including public availability of data regarding levels and variations of property assessments. Various States already conduct well-planned and careful assessment ratio studies, but in some instances the findings are only used "administratively"—for example, as a basis for State equalization actions and to advise and assist local assessors. There are understandable reasons why a State property tax agency may be reluctant, without specific legal mandate, to publicize such findings; not only because it must maintain effective working relations with local assessors, who commonly are elective officials, but also because of a fear that taxpayers—or even the courts—may attach more precision to the data than is entirely justified. The latter problem is especially likely to arise where local assessing areas are so small that they have only a few property transfers to indicate the prevailing level of assessment. Even aside from this, the responsible agency may face a difficult task in providing a meaningful and accurate description of the nature of its findings, and of the technical limitations which apply.

Nevertheless, as the experience of some States clearly shows, "full disclosure" is a desirable policy, which is likely to operate in the public interest, especially by enabling the individual taxpayer to compare assessments for his own holdings with an objectively measured "average" for his community, and to observe how his area compares with others in the measured degree of assessment uniformity. There should be explicit legal requirement for the publication of ratio-study findings.

Numerous States also assemble and issue data on local government finances, often including figures on assessed valuations, as well as on

property tax levies and rates. With some notable exceptions, these publications leave a great deal to be desired from the standpoint of public information. Many of them have been unchanged in substance for decades; many are extremely detailed and dull, lacking in clear definitions of technical terminology, tardy in issuance, and otherwise faulty. We urge widespread and vigorous efforts to improve and modernize such State reports, to make them more useful for public information concerning property taxation and local government finances.

The Federal Government should encourage and supplement such desirable State efforts, in particular by providing the relatively modest sums needed to extend and strengthen regular State studies on assessment levels, and by continuing and improving related Federal statistical efforts through the periodic Census of Governments. This latter undertaking has already been extremely valuable, not only by providing benchmark data on taxable property values and property tax rates but also in demonstrating effective sampling and survey techniques which can also be applied in more frequent and detailed State surveys regarding property tax assessments.

#### **(e) Machinery for taxpayer appeals**

We recommend that those States which have not done so undertake an intensive review of their existing machinery for assessment reviews and appeal, and that they move promptly to provide adequate remedies so that taxpayers can obtain, without undue delay or expense, the protection to which they are entitled under the uniformity provision of State laws and the equal protection clause of the 14th amendment. Such legislation should specifically provide that the taxpayer may use as evidence in appeals the findings of State studies of assessment ratios on the issue of whether his assessment is inequitable.

This recommendation is intended to supplement and support our proposal for a "full disclosure" policy with regard to property tax assessments. It rests squarely on the proposition that greater equity in property valuation will be most widely and rapidly achieved by enlisting

the self-interest of individual taxpayers. In many States, existing provisions for review and appeal of assessments are highly deficient, and in some instances they involve improper exercise of an appellate role by agencies or officials that participated in the original setting of assessments. Given the broad sweep of the property tax, and the difficult problems of valuation it involves, some mistakes are inevitable, even with a competent and well-intentioned assessment staff. Official efforts at equal treatment need to be backed up by the "automatic policing" that can result from taxpayer access to an effective mechanism for assessment appeals.

We urge widespread attention to modernized provisions for tax review and appeal which have been established in some States, and to proposed legislation on this subject which has been drafted by the Advisory Commission on Intergovernmental Relations.

#### *Property tax collection*

One unfortunate aspect of property taxation involves the *manner* of its collection; nearly everywhere in the form of semiannual installments. For many taxpayers, these periodic charges undoubtedly represent by far the largest bills they must meet each year. The blow is generally spread for those who are buying property on an amortized-mortgage basis, by addition to their monthly installments. However, for the large and (happily) growing number of other property-owning taxpayers, there is rarely any alternative to lump periodic payments. This seems not only undesirable but unnecessary in a society which collects other major taxes mainly on a "flow" basis (including withholding of most income tax amounts, even though such liabilities are also set annually), and which in the field of private consumption has widely applied workable means of installment payment for large purchases—perhaps even to the point of excess.

Collection on a more frequent basis would, for many property owners, greatly reduce the inconvenience and pain of the property tax. We urge responsible State and local officials to accept the challenge and to devise acceptable procedures to deal with the problem.



## CHAPTER 5

# Overhauling Federal Aid for Urban Needs: A Revenue-sharing Plan

The critical status of urban government financing calls for a broadening and improvement of present intergovernmental fiscal arrangements. Elsewhere we offer recommendations for State action on that score. We now propose Federal Government action to—

Provide a system by which States, major municipalities, and major urban county governments would annually receive, on an equitable formula basis, a legally set percentage of the base for the Federal personal income tax.

Maintain and provide adequate support for Federal programs that help disadvantaged persons in urban areas.

Eliminate those aspects of Federal grant programs for local governments that tend to discriminate against major cities and urban counties.

### DEVELOPMENTS IN FISCAL FEDERALISM

Few recent proposals concerning Government finance have captured the public support of so many prominent leaders of different philosophical bent and party affiliation as has the revenue-sharing idea. When generalities are translated into specifics, however, no available formula has satisfied those in Congress, in State governments and in urban governments whose support is vital. The formula proposed here, and the principles it embraces, are intended to help overcome obstacles to putting a plan in motion. Revenue sharing needs to be viewed in proper perspective, avoiding misconceptions and false hopes. In particular, there should be no notion that Federal partnership in State-local financing is something brand new; that revenue sharing promises to end all money problems of State and local governments; or that existing forms of Federal aid to State and local governments will no longer be necessary or advisable once revenue sharing is enacted.

"Fiscal federalism" is relatively new as a term. But the practice of Federal-State-local partnership is as old as the union of the colonies. Predating the Constitution, the 1785 Articles

of Confederation provided for Federal land grants to support education in the Northwest Territory. From the beginning, the Federal Government has recognized a national interest in certain locally administered programs and expressed this interest through funds to support these "local" responsibilities.

Intergovernmental revenue (i.e., Federal and State aid) is an important component of urban government finance. In 1966, it supplied more than one-fourth of all the revenue of local governments in major metropolitan areas. While only a minor part of these transfers flowed directly from the Federal Government, a considerable part (not directly measurable) of the State-to-local payments were financed from Federal grants to States. To replace such intergovernmental assistance with property taxation in major metropolitan areas would require property tax increases of nearly two-thirds.

Intergovernmental payments have been rising rapidly at both the State and Federal levels: State aid to local governments from \$10.9 billion to \$19 billion between 1962 and 1967; Federal payments to State and local governments from \$7.7 billion to \$15.2 billion during the same 5-year period. This trend seems less dramatic when observed in the light of the rising amounts State and local governments also have been obtaining from their own revenue sources. The proportion of all general revenue of State and local governments provided by Federal aid changed only from 13.5 percent to 16.8 percent between 1962 and 1967; and the fraction of all local government revenue coming from Federal and State grants rose only from 30.4 to 34.9 percent. To describe these developments in another way: intergovernmental receipts accounted for less than one-fourth of the total increase in State and local general revenue, and for only 44 percent of the increase in general revenue of local governments between 1962 and 1967; the rest of the rise was met from taxes or other "own" revenue sources of the aided governments.

Another major recent development in intergovernmental finance has been the multiplication of separate Federal grant programs, which

now run into the hundreds. This reflects the increase of direct fiscal aids to local governments, in contrast to the earlier pattern of Federal grants principally to the States. Nevertheless, in dollar terms, the bulk of all Federal intergovernmental spending still flows to the State governments, and mainly through a rather limited number of very large programs—especially for highways and public welfare.

A related development is the increasing Federal use of *project* rather than *formula* grants. The distinction is not always clear cut, since entitlement to a particular sum under a formula may not be automatic but may also require approval of particular activities proposed to be financed. In general, however, the formula approach relies mainly on objective, measurable factors (population, highway mileage, income, etc.) to determine amounts available to particular governments. With the project approach, on the other hand, the eligible claimant is expected to apply for aid for a particular project or activity, and his application is examined in the light of criteria set by law and regulation. Generally such criteria involve a larger element of judgment than do the objective measures used with formula grants. Since funds provided for project-grant programs often are insufficient to cover all requests filed, the administering agency must exercise considerable discretion as to priorities of needs in one locality over another.

In part, the increased use of project-type grants reflects the difficulty of devising reasonable formulas to measure fiscal capacity, fiscal effort, and specific types of "needs" for local jurisdictions or minor areas—especially with all the variety and layering of local government that widely prevails. Much less difficulty is encountered in devising distribution formulas for Federal-to-State grants; more data are available for State areas than for diverse types of local areas, and little or no account need be taken of interstate differences in governmental structure.

The Federal Government has been attempting in various ways to overcome or reduce the scattering of its fiscal aid relationships with local governments. These efforts have included (1) establishing interagency bodies to promote coordination of planning and administration for various grant programs; (2) assigning a "clearinghouse" role to the Advisory Commission on Intergovernmental Relations with respect to proposals for new programs; (3) requiring comment clearance by metropolitan planning agencies of various types of capital grant applications that originate in metropolitan areas, and (4) encouraging coordinated local planning and action with regard to closely interrelated activities (as in the model cities and antipoverty programs).

#### OBJECTIVES OF INTERGOVERNMENTAL FISCAL AID

Intergovernmental fiscal aid arrangements are intended to compensate for differences in the inherent capability of the government levels involved. Governments at the "lower" level are generally recognized as having major advantages for actual provision of many governmental services: they are "closer to the need," suited to recognize and accommodate differing conditions and local traditions or attitudes, and with their more moderate size can be less subject to bureaucratic layering and rigidity. On the other hand, the "superior" levels of government also have major advantages, especially for the financing of public services: because of their larger geographic and operating size, they can make effective use of forms of taxation that cannot be as well used at the "lower" governmental levels. In addition, with the growing interdependence of modern life, problems and needs which appear in the first instance at the local or State levels have increasing significance for larger areas. Poverty and poor schooling in deprived areas do not merely affect those areas; in our mobile society they contribute to *national* problems in the form of unemployment, urban crime and disorder, inflated public assistance needs, and other contemporary ills. Increased recognition of such interdependency has stimulated the growing use of fiscal aid as a means for *joint* intergovernmental action on widely shared problems.

Grants-in-aid serve as an alternative to more sweeping centralization of governmental responsibilities. They have developed as a mechanism to (1) increase the total financing available for public services; (2) help insure essential public services even in areas with limited fiscal capacity; (3) limit undue reliance upon undesirable forms of taxation; and (4) provide for inter-area coordination of local efforts that cannot function independently (as in highway systems); but still (5) draw heavily upon the direct experience and operating capabilities of the aided governmental units.

All of these objectives can be observed—with differing degrees of emphasis—in the long history of State-to-local grants, as well as in Federal aid to States and local governments.

#### FEDERAL REVENUE SHARING

Substantially all Federal fiscal aid to State and local governments is now in the form of "categorical grants," i.e., payments to help finance *particular programs or types of projects*, tied to conditions on the form of action by the aided governments. During recent years, however, numerous measures have been introduced



in the Congress which contemplate a different approach, involving distribution of funds on a less conditional and narrowly-targeted basis. While Federal "revenue-sharing" had sometimes previously been proposed, the recent upsurge of congressional and popular interest can be traced to a proposal which was developed in 1964 by a fiscal study group that included Prof. Walter W. Heller of the University of Minnesota and Joseph A. Pechman, Director of Economic Studies of the Brookings Institution, and which is therefore often referred to as the "Heller-Pechman Plan."<sup>1</sup>

The revenue-sharing plan that was outlined for consideration in 1964 was specifically offered as an addition to, rather than a substitute for, existing Federal programs for categorical grants-in-aid. Some of the principle objectives of a Federal revenue-sharing system have recently been explained by Drs. Heller and Pechman as follows:

Revenue sharing is intended to allocate to the States and local governments, *on a permanent basis*, a portion of the very productive and highly growth elastic receipts of the Federal Government. The bulk of Federal revenues is derived from income taxes, which rise at a faster rate than income as income grows. By contrast, State-local revenues barely keep pace with income. State-local needs have outstripped the potentialities of their revenue system at constant tax rates, with the result that tax rates have been pushed steadily upward throughout the postwar period and many new taxes have been added. Since State-local taxes are on balance regressive, the higher State-local taxes impose necessarily harsh burdens on low-income recipients. In addition, essential public services are not adequately supported in many, if not most, communities because they do not have the means to finance them \* \* \*.

Categorical and general-purpose grants have very different functions and these cannot be satisfied if the Federal system were limited to one or the other \* \* \*.

Categorical grants are needed because the benefits of many public services "spill over" from the community in which they are performed to other communities. Expenditures for such services would be too low if financed entirely by State-local sources, because each State or community would tend to pay only for the benefits likely to accrue to its own citizens \* \* \*.

General-purpose or bloc grants are justified on substantially different grounds. In the first place, all States do not have equal capacity to pay for local services. Even though the poorer States make a larger relative revenue effort, they are unable to match the

revenue-raising ability of the richest States. Second, Federal use of the best tax sources leaves a substantial gap between State-local need and State-local fiscal capacity. Moreover, no State can push its rates much higher than the rates in neighboring States for fear of placing its citizens and business enterprises at a disadvantage.<sup>2</sup>

At the time the "Heller-Pechman Plan" was first publicized, its advocates urged that the shared revenue should go only to the State governments. They conceded that problems of public services and financing are most critically evident at the local level, and especially in major urban areas. However, they pointed out that: in general, the State governments have been responsive to rising public service needs, as evidenced by their tax-raising efforts and in many instances by extensive grant-in-aid programs; the proposed additional revenue would enable the States to increase their aid to local governments; and the great variation in State-local patterns of government and fiscal relations seemed to preclude any workable and equitable arrangement for direct Federal-local sharing.

These views, however, were not shared by some spokesmen for local government, who strongly urged provisions to protect the interest of major urban areas in the States' use of the prospective additional funds. Accordingly, the authors of the plan have since modified their original stand and "in the light of urgent local needs and the observed tendency of State capitals to shortchange their major central cities \* \* \* have been persuaded that an explicit 'pass through' rule may be desirable to recognize the legitimate claims of local government."<sup>3</sup> They still recognize, however, that any effort in this direction must take account of the great diversity, from State to State, in existing patterns of State-local fiscal relations.

We believe there is urgent need for early action to establish a system of Federal revenue-sharing which would incorporate major features of the "Heller-Pechman Plan" but which would also provide for a share of the allocated funds to go *directly* to major cities and urban county governments. Accordingly, we make the following recommendation:

### Recommendation No. 1—A Federal revenue-sharing system

The Commission recommends that Congress adopt a system for regular revenue sharing with State governments and major

<sup>1</sup> A congressional committee has recently issued several publications about this and other possible types of Federal action that might help meet the pressing fiscal problems of State and local governments. See *Revenue Sharing and Its Alternatives: What Future for Fiscal Federalism?* Hearings (July 31 and August 1, 2, 3, 1967); and Vol. I, *Lessons of Experience*; Vol. II, *Range of Alternatives for Fiscal Federalism*; and Vol. III, *Federal, State, Local Fiscal Projections*. Subcommittee on Fiscal Policy of the Joint Economic Committee, 90th Cong., 1st Sess.

<sup>2</sup> Walter W. Heller and Joseph Pechman, *Questions and Answers on Revenue-Sharing*, Washington: The Brookings Institution, 1967 (Reprinted from the hearings cited in footnote 1 above).

<sup>3</sup> Ibid.

cities and urban counties. The revenue-sharing system should be on a simple formula basis that (1) reserves to a Federal trust fund a sum for annual allocation consisting of a legally authorized percentage of the total net taxable income reported under the Federal individual income tax; (2) provides an allocation to each State area based primarily upon population, but with an adjustment for relative total State-local tax effort and additional crediting for State revenue from taxation of individual income; and (3) provides for a portion of the allocation for individual State areas to be paid directly to major municipalities and urban county governments on a basis determined by their respective shares of all State and local tax revenue in the particular State. The system should leave a high degree of discretion with the recipient governments as to their application of the distributed funds.

#### *Primary features*

Before discussing our proposal in detail, we will review its major aspects, noting whether and in what respect it may differ from the Heller-Pechman version.

The *purpose* is basically the same—to tap the highly productive Federal income tax so that State and local governments might regularly receive a defined portion of taxable personal income.

The *mechanism*, under our proposal as under the original plan, would be a trust fund. This fund would regularly receive for allocation a total sum determined by statutory provisions, rather than being contingent upon annual detailed appropriation action with all its uncertainties and potential delays.

The *State-by-State allocation* we recommend, as in the case of the earlier proposal, would be primarily in terms of population. However, we specifically urge that adjustments be made for the level and form of State and local tax effort.

The *use of funds* would, for recipient governments, have few strings attached under our proposal as under the plan previously developed.

The *recipient governments* under the original plan, as noted earlier, would have been the State governments only. Our proposal explicitly offers a formula by which a portion of the shared revenue would be allocated directly to major cities and major urban counties.

#### *Allocation methods*

Our recommendation would involve two major steps in apportioning the total sum available among particular individual governments: (1) determining the allocation for each of the

50 State areas;<sup>4</sup> and (2) apportioning each State area total among major cities and urban counties and the State government itself.

We are suggesting that the State area allocation take account of fiscal effort, as measured by the relation of all State and local tax revenue to personal income in the various States, and with extra weighting for revenue from State individual income taxes. Each State area's proportion of the Nation's total population would be adjusted by this index to determine its share of all the funds available.

Following are illustrative calculations (based upon 1966 data) for two neighboring States that differ considerably in relative fiscal effort, as thus measured:

	Illinois	Wisconsin
(1) Percent of U.S. population.....	5.528	2.135
(2) Index of fiscal effort:		
(a) All State-local taxes per personal income, relative to U.S. average.....	.853	1.185
(b) Same, adjusted to give double weight to State income tax revenue.....	.785	1.373
(3) Proposed State-area allocation as percent of U.S. total (2b times 1).....	4.321	2.920

Our proposal that extra weight be given to revenue from State individual income taxes is intended to encourage further use of this type of tax, which is not yet used at all by a third of the States and is only very modestly employed in a considerable number of others.

The second step in the apportionment process—determining the individual-government parts of each State-area allocation—is more fully explained below under "Selective Direct Local Sharing."

#### *Minimum constraints*

We are urging that the allocations be made with a minimum of constraints upon the functional application of the funds by the recipient governments. Fundamentally, this recommendation takes account of the basic purpose of the proposed revenue-sharing system, which should provide not only a measure of increased fiscal capacity but also more freedom of action for the aided governments; i.e., with more opportunity than is generally possible through conditional grant arrangements for them to set priorities in accordance with their own respective conditions.

This no-strings approach, we realize, may seem less appealing politically to the Congress

<sup>4</sup> "State area" is the term used to include all governments within the boundaries of a state—including the state government, county governments, municipal governments, and so forth. "State government" refers of course solely to the superior level of government within the state.



than would a more restrictive earmarking of funds. Perhaps only minor harm would result—in view of the prevailing makeup of State-local expenditure—if the allocations were to be made available for only some few major purposes, such as education, public welfare, health, and sanitation. But even such summary specification would hamper responsible policymaking at the State and local levels unless and until—as might well be expected—adjustments had been made in the way that “own revenue” sources were applied to various needs. In other words, a second argument for the lack of detailed functional constraints is that, at least over time, they would tend to become illusory: complicating, but ineffective.

It may be noted that, while no-strings aid would be a new development for the Federal Government, there are many precedents for this kind of intergovernmental relationship, not only in other countries but also at the State-local level in the United States. All but a few State governments distribute some funds for “general local government support” (as classified in Census Bureau reports), and the total of such State distributions in fiscal 1967 was \$1.4 billion. In a few States, such unrestricted aid makes up a considerable fraction of all State-local payments.

#### *Selective direct local sharing*

The local government feature of our proposal is of crucial importance. In urging direct formula-based payments to “major cities and urban counties” we have in mind municipalities of 50,000 or more and those county governments above the same minimum size in which at least half the population is “urban.” As of 1960, there were 310 such municipal governments, with 63.4 million inhabitants, and 407 such major urban county governments, with 103.1 million inhabitants. The net total 1960 population of the prospectively aided major units (without double counting for the majority of major municipalities that are within major urban counties) was 121.7 million, or two-thirds of the Nation’s total population.

On the other hand, this selective approach would avoid the undesirable features of a system that envisaged direct Federal-local sharing to local governments generally. Any such sweeping effort should be avoided on at least two grounds: the tremendous administrative complexities involved (with some 80,000 local units to be considered), and the prospect that no-strings Federal aid would tend to sustain and entrench many local governments that are far too small to represent viable units. Under the suggested

two-stage distributive formula, the total allocation among State areas would be determined on a uniform basis, but *the intrastate shares to be paid directly to major local urban governments and to the State government itself would take account of the particular State’s prevailing pattern of functional responsibilities and financing*, as reflected by tax revenue proportions.

With such an approach, it would be obviously desirable to avoid the possibility of drastically different treatment for individual governments just below and just above the size standard for eligibility; for example, one municipality of 49,900 and another of 50,100. This could be handled by graduating allowances for units of 50,000 to 100,000 according to the percentage by which their population exceeds the 50,000 level. On such a basis, the plan would be most fully helpful to municipalities and urban counties of 100,000-plus, and would provide discounted allocations for those with a population of 50,000 to 100,000.

The actual proportions of all funds going directly to States, as against major local units, would of course depend upon the weight applied to the “own tax revenue” portion of the intrastate formula. We have tested one such formula, under which the fraction of the total allocation to any State area that would go directly to eligible local governments would be as follows:

(a) For each municipality or urban county of 100,000-plus population, 2 times the percentage relation of the government’s own tax revenue to the total of State and local taxes in the particular State; and

(b) For each municipality or urban county of 50,000 to 99,999, the product of (a) times the percentage by which the government’s population exceeds 50,000.

With such a formula, judging by recent Census Bureau data, direct allocations to major municipalities would make up about 22 percent of the nationwide total, direct allocations to county governments would represent 13 percent, and the other 65 percent would go to the State governments. These proportions would naturally range considerably from State to State depending upon their relative degree of urbanization and their governmental patterns and State-local tax arrangements. Some direct local allocations would be made in all the States except Alaska and Vermont (which lack any potentially eligible local units). At the other extreme, the local portion would be more than 50 percent of the State-local total in three States (New York, Maryland, and Tennessee) and between 40 and 50 percent in five States (Califor

nia, Hawaii, Massachusetts, New Jersey, and Virginia.)<sup>6</sup>

In most of the Nation, obviously, a major part of all the federally shared revenues would flow to the State governments under this formula. However, a considerable part of the additional resources thus available to the States would be used by them—directly or indirectly—for increased grants to local governments. (Such grants already make up more than one-third of all State general expenditure.) And, needless to say, it is reasonable to expect that the major urban governments for which direct Federal revenue sharing is proposed would also participate in such increased State fiscal aid.

#### *Implications for urban government structure*

This suggested plan for selective direct Federal-local revenue sharing is deliberately "loaded" to favor general-purpose governments that are sufficiently large in population to give some prospect of viability as urban units. Earlier in this report we have emphasized the need for greater use of such relatively compre-

<sup>6</sup> Detailed data by states are as follows (with numbers of directly-aided cities and counties in parentheses):

Percent of total State-area allocation			
	State government	Major cities	Major urban counties
Alabama.....	75.3	12.5 (6)	12.2 (12)
Alaska.....	100.0		
Arizona.....	72.2	15.1 (2)	12.7 (2)
Arkansas.....	95.0	2.5 (3)	2.5 (4)
California.....	56.5	15.8 (41)	27.7 (25)
Colorado.....	72.9	16.2 (3)	10.9 (7)
Connecticut.....	70.8	29.2 (8)	
Delaware.....	79.9	12.1 (1)	8.0 (1)
District of Columbia.....		100.0 (1)	
Florida.....	67.2	12.1 (10)	20.7 (15)
Georgia.....	76.6	9.6 (6)	13.8 (8)
Hawaii.....	51.9	48.1 (1)	
Idaho.....	96.2		3.8 (2)
Illinois.....	71.5	20.7 (15)	7.8 (21)
Indiana.....	78.5	10.5 (9)	11.0 (18)
Iowa.....	85.4	6.6 (7)	8.0 (9)
Kansas.....	81.6	6.9 (3)	11.5 (6)
Kentucky.....	83.9	9.5 (3)	6.6 (7)
Louisiana.....	79.4	14.3 (5)	6.3 (9)
Maine.....	94.0	4.4 (1)	1.6 (5)
Maryland.....	38.9	27.8 (1)	33.3 (4)
Massachusetts.....	54.8	41.9 (19)	3.3 (9)
Michigan.....	70.8	17.5 (17)	11.7 (15)
Minnesota.....	75.7	10.7 (4)	13.6 (6)
Mississippi.....	84.0	11.7 (1)	4.3 (7)
Missouri.....	69.8	23.3 (6)	6.9 (8)
Montana.....	97.2	.4 (2)	2.4 (1)
Nebraska.....	79.3	13.6 (2)	7.1 (2)
Nevada.....	77.8	2.8 (2)	19.4 (2)
New Hampshire.....	86.9	10.5 (1)	2.6 (3)
New Jersey.....	55.0	23.3 (14)	21.7 (16)
New Mexico.....	86.5	11.4 (1)	2.1 (6)
New York.....	22.4	67.0 (15)	10.6 (20)
North Carolina.....	78.1	7.9 (7)	14.9 (10)
North Dakota.....	98.6		1.4 (1)
Ohio.....	68.9	19.6 (18)	11.5 (28)
Oklahoma.....	85.4	8.0 (3)	6.6 (6)
Oregon.....	79.6	9.3 (2)	11.1 (5)
Pennsylvania.....	71.7	19.6 (14)	8.7 (24)
Rhode Island.....	67.2	32.8 (4)	
South Carolina.....	92.9	2.4 (3)	4.7 (5)
South Dakota.....	95.8	1.2 (1)	3.0 (2)
Tennessee.....	47.0	26.1 (4)	26.9 (6)
Texas.....	71.5	18.7 (21)	9.8 (27)
Utah.....	81.8	8.8 (2)	9.4 (4)
Vermont.....	100.0		
Virginia.....	54.2	28.2 (8)	17.6 (5)
Washington.....	80.1	9.5 (3)	10.4 (11)
West Virginia.....	93.6	3.1 (3)	3.3 (4)
Wisconsin.....	70.4	12.8 (7)	16.8 (16)
Wyoming.....	99.5		.5 (1)

hensive local governments, in lieu of the layering and scatteration of responsibility found in so many metropolitan areas. A revenue-sharing plan of this nature should help to encourage State and local action in that direction, especially if the provisions for eligibility are designed to recognize changes in governmental structure: for example, population minimums should permit allowance for the effect of recent annexations and mergers, and creditable local tax revenue should be allowed for all of any group of units that might have recently merged.

Given such provisions, the system would offer some specific financial incentive toward desirable enlargement and functional consolidation of local government in urban areas. Many circumstances can be identified where eligibility for direct participation in the revenue-sharing system could be achieved or enlarged by municipal annexation action, municipal consolidations, city-county integration, intercounty consolidations, or the absorption by populous cities or counties of various "overlying" special districts which now exercise independent taxing power. The system would also provide some incentive for increased use of the county as an instrument for local school-taxing purposes, as we have previously urged.

The Federal Government has a clear legitimate interest in more rational and workable patterns of urban government structure, in view of the great difficulties which existing conditions create for effective intergovernmental relationships. On the other hand, the proposed revenue sharing plan would not be directly *coercive* toward structural change, nor—in view of its rather limited scale in relation to urban government financing—so generous as to provide an overwhelming incentive. This seems consistent with the view that *primary* responsibility for dealing with problems of urban government structure must continue to rest with States and local communities.

Some observers might question our proposal that direct sharing of Federal revenue should extend to large urban counties as well as to major municipalities. They may argue that counties in some parts of the country evidence low standards of competence. However, eligibility for major urban counties seems clearly desirable, mainly because of the marked variations that exist in the split of functional and financing responsibilities between cities and counties; the county's role (as a separate government) ranges from zero in certain cases up to a very significant portion of all local government in some other major urban areas. On the other hand, there is one rather widespread feature of county government that *does* demand attention in the revenue-sharing system. This in-



volves the diffusion of responsibility—especially by direct election of numerous officials—which makes many counties resemble a loose confederation of semiindependent offices and agencies rather than a centrally coordinated government. Similar conditions also exist for some major municipal governments.

This problem might be met by requiring that for any individual county or municipal government to be eligible for direct revenue sharing, its governing body must have effective power of appropriation covering all tax revenue of the government, as well as all amounts of the directly shared revenue. (Perhaps any such sanction could be imposed with a delayed effective date, to allow a year or two for appropriate adjustments of intragovernmental relationships.)

#### *Financial magnitudes*

Various proponents of a Federal revenue-sharing system have urged that it should aim at an eventual trust-fund earmarking equal to 2 percent of the Federal income tax base. Some, including Drs. Heller and Pechman, have suggested that a “staged” approach be used at the outset, perhaps beginning at one-half percent, to moderate the impact of the plan on Federal fiscal planning and to permit the aided governments to make appropriate adjustments in their budgetary arrangements.

Obviously, the feasible scale for such a system must be determined by the Congress in the light of many factors, and with careful regard for Federal fiscal needs and economic conditions. It may nonetheless be useful to indicate how the sums involved with a 2-percent-of-base sharing system would relate to State and local government finances.

Had such a system been operative in 1966, it would have supplied \$5.8 billion to State and local governments. Such a distribution would have involved a 44-percent addition to the amounts they received from Federal conditional grants-in-aid. However, the added funds would have equaled—

Less than 6 percent of State-local revenue from all sources;

Less than 7 percent of State-local revenue from their “own” sources (i.e., other than Federal aid);

About 10 percent of total State-local tax revenue; or

About as much as the year-to-year increase in State-local tax revenue.

These figures indicate that even a full 2-percent-of-base arrangement would only moderately dampen the strong fiscal pressures which confront State and local governments, and which have led to widespread tax increases and other revenue-raising efforts by them.

On the other hand, as proponents of a revenue-sharing system emphasize, the Federal income tax base is highly responsive to economic growth, so that the allocations would undoubtedly rise—perhaps to around \$8.5 billion by 1972, according to rough projections by Drs. Heller and Pechman. If State-local collections from their “own” revenue sources continue upward at their recent rate, this would mean little change in the resulting proportion of the total being supplied by the revenue-sharing system, even by 1972. However, it seems more reasonable to expect that the proposed “new” revenue source would in part substitute for further increases in State and local taxes. In other words, the plan should promote some shift in the overall composition of the base for domestic government financing. The increased use of Federal income taxation would permit either improvement or expansion of State-local services, or less increase than would otherwise occur in State and local taxes, or—most likely—some of both. Since the Federal tax system, with all its faults, is far less regressive and inequitable than those of the State and local governments, these results would be clearly in the public interest.

#### **Recommendation No. 2—Support for urban grants-in-aid**

**The Commission urges Congress to maintain and provide adequate financing for Federal programs that have a specific bearing upon the needs of disadvantaged persons in urban areas. This recommendation concerns not only Federal aids for housing and city rebuilding (as covered more specifically in other Commission recommendations) but also such appropriations as those for poverty programs, grants for the education of children of low-income families, assistance for urban mass transit, and programs for training of the unemployed.**

One major purpose of this recommendation is to make it emphatically clear that the revenue-sharing system described above should be adopted as an addition to, rather than a substitute for, conditional Federal grants for particular purposes.

Existing grant-in-aid programs are far from perfect. We commend the efforts now being made, both in the Congress and in the executive branch, to simplify and achieve better coordination of such programs. But we endorse the basic purpose and philosophy of conditional grants for particular purposes which are of national as well as local concern, and would not wish our endorsement of a revenue-sharing system to be interpreted as an indictment of such grants. Each approach has some good features—and some drawbacks—which the other lacks. *Both*

forms of fiscal aid should be employed by the Federal Government.

We have not attempted a detailed review of existing grant programs. However, we wish especially to emphasize the importance of Federal aids that stimulate, sustain, and reinforce efforts to deal directly with the needs of economically and socially deprived persons in urban areas. Some of these programs have involved severe "growing pains," and some may require material adjustment to come closer to their potential. But they have the advantage which more generalized financial assistance cannot offer, of focusing some Federal aid directly at certain particular types of pressing social needs. We urge their sympathetic consideration and adequate budgetary support.

**Recommendation No. 3—Removing anti-metropolitan bias from Federal aid programs**

The Commission recommends that the President direct the Bureau of the Budget to—

**Intensively review existing requirements and procedures for all sizable programs involving Federal grants to local governments;**

**Specifically identify any instances where such programs by law or through administrative practice appear to discriminate against major cities or urban counties as compared with smaller municipalities, smaller counties, or special-purpose governments;**

**Stimulate the responsible Federal agencies to eliminate such discrimination administratively to the extent feasible; and**

**Report to Congress those instances where statutory changes would be needed to eliminate such discrimination.**

Federal grants-in-aid, like those of the States, should not operate to the relative disadvantage of major multipurpose governments. As previously pointed out, there should be increased reliance upon such governments in large urban areas. For various reasons, however, some existing grant programs do involve an effective bias against large cities and urban counties. We are proposing a comprehensive effort to identify and eliminate such conditions. Three brief examples may help to clarify the problem.

Some grant programs specify (by statute or regulation) a maximum dollar amount per aided government or project. Such limitations offer little or no constraint for small governmental units or projects, but they may drastically limit the "Federal share" of financing available for large governments or projects. Such provisions operate to the disadvantage of metropolitan areas, where urban needs and problems are especially severe. If any type of dollar limitation is essential, it would seem more appropriate that it be expressed on a per capita basis that could apply equitably across the board.

In the administration of a particular grant program, it is not unusual for much more detail to be required in applications filed by major governments than in those from smaller units. Such a policy might be defended on the grounds that the major unit is likely to be requesting more money and that it can be expected to have background data that could not be developed by small governments. On the other hand, where the resulting informational demands are highly detailed and complex, they may involve a serious burden for the large unit. Furthermore, it might be argued (except perhaps where the proposed grant makes up a very high proportion of the total cost to be financed) that the administering Federal agency could reasonably assume that requests from larger governments are likely to be based upon more intensive and informed planning than those from very small units, so that specially detailed background information should not be essential. In any event, this problem should be one aspect of the proposed review of existing grant program relationships with major urban units as compared with others.

Some Federal grant programs are alleged to have encouraged the development of various types of special district governments, particularly through specifications for methods of financing not widely available to counties and municipal governments at the time such programs originated. Especially in view of the continuing proliferation of special districts, the need for more unified government in major urban areas, and recent changes in State laws affecting local units, this situation should be carefully reviewed. A minimum objective should be to insure that Federal aid arrangements do not interfere with State or local efforts to merge existing special districts into counties or municipalities.



## CHAPTER 6

# The Need for New Approaches to Land Value Taxation

Our Commission's consideration of urban problems has demanded specific attention to land values, and the taxation of such values, for three main reasons:

1. *Land makes up a very sizable component of the cost of housing.*—It probably averages at least one-fourth of the total value of existing houses in urban areas, and more than one-sixth of the total value of apartment house properties. Furthermore, residential land costs have been rising much more rapidly than construction costs. For new one-family houses with FHA-insured mortgages, the proportion of total value has risen to 20 percent as compared with 12 percent in 1950. Any serious effort to stem the strong increase in housing costs clearly cannot ignore the land component.

2. *Rising fiscal requirements for urban government are outpacing the yields of the present State-local revenue system.*—This is a system which, especially in its excessive and faulty use of general property taxation, has many undesirable features. We have offered various proposals to deal with these problems. However, in the search for better revenue arrangements, it is also highly appropriate to consider increased taxation of land values or of increases in land values. This is particularly the case because of the longstanding and widely accepted view of reputable economists (dating at least from Adam Smith, in 1776) that such taxation is more socially justified and has less damaging economic effects than most alternative types of taxes.

3. *Numerous advocates of "land value" taxation argue that it can be expected to have a generally desirable effect upon private land use in and around urban centers.*—They contend it will do this: (a) by reducing or stabilizing land costs, and thereby making economically feasible some new construction that would otherwise be uneconomic; and (b) by making it more costly for owners of vacant or underutilized property to retain such holdings in their existing condition in the speculative hope of a further rise in land value. Such arguments are sometimes overstated, and like much economic analysis they rest mainly upon deductive reasoning rather than extensive "hard" evidence.

Nonetheless, in view of our direct concern for patterns of land use and urban development, such views have merited careful attention by this Commission.

We have received testimony and evidence suggesting the possible desirability of increased use, in the Federal-State-local revenue system, of taxes upon the value of land or upon increases in land value, or both. We do not, however, feel prepared to offer recommendations for specific actions of that nature. In view of the complexity and importance of this matter, and the urgent need for additional research and analysis, we propose:

Action by the U.S. Treasury Department to undertake an intensive study of this subject, and to develop specific recommendations as to means by which the Federal Government might recoup for public purposes a materially increased portion of increases in land values; and

Vigorous exploration by the State governments of the desirability and feasibility of providing through the State-local revenue systems for additional taxation of land values or land-value increments.

### TRENDS IN LAND VALUE

Between 1956 and 1966, the market value of privately owned land in the United States approximately doubled. Careful estimates for "ordinary taxable real estate" indicate a rise in land value from \$269 billion to approximately \$523 billion during that decade.<sup>1</sup> The 10-year growth in land value amounted to more than \$5,000 per American family. This indicates an average annual rate of increase of 6.9 percent, or somewhat more than the 6 percent rate of in-

<sup>1</sup> For additional data, see Allen D. Manvel, "Three Land Research Studies" Research Report No. 12, National Commission on Urban Problems.

There is no one firm "official" source of comprehensive data on land values. The estimates cited above are based mainly upon data from the 1957 and 1967 censuses of governments, and relate to land subject to local assessment for property taxation, thus excluding the relatively minor portion of all private land that is included in State assessments of railroad and other utility property. Because of limitations in underlying data (and the problem of estimating closely the "land" portion of total values for improved property), the amounts given here are subject to an indeterminate degree of error. However, they probably provide a reasonable reflection of the strong rise that has been underway.

crease in gross national product. During the same 10-year interval, there was an average annual rise of 1 percent in the index of wholesale commodity prices, and of 1.8 percent in the consumer price index.

A portion of this trend, of course, results directly from increased urbanization, involving the shift of some land from rural to urban use. Between 1956 and 1966, for example, the number of separately valued parcels of urban property rose by a little over one-fourth, while the number of "acreage and farm" properties dropped off. It is not possible, however, to distinguish value increases that were *directly* associated with changes in the nature and intensity of use from those which involve land of unchanging use.

Nearly two-thirds of the estimated total of land value is accounted for by "urban" land—that is, used for nonfarm residential property, commercial and industrial development property, and vacant lots. The count of such urban properties on local assessment rolls increased during the 1956–66 decade by slightly more than one-fourth, but the estimated value of urban land more than doubled, indicating an increase in average land value per urban parcel of about 59 percent, or 4.8 percent per year. Similar calculations for "acreage and farms" suggest an average annual rise in land value per property of about 6.2 percent. This closely resembles the independently developed figures of the Department of Agriculture regarding changes in the per-acre value of farm land.

These totals obviously cover a wide variety of trends, as among areas, communities, and particular properties. For example, a far more rapid growth rate of California land values (averaging 8.3 percent annually from 1957 to 1967) is reflected in the extensive sample appraisals conducted regularly by that State's board of equalization. Various local-area studies have recorded notably high rates of increase in the value of urban fringe land in process of development. Even when developers' out-of-pocket costs for such improvements as grading are deducted, some such studies report average increases in land value running up to 15 percent or more per year. On the other hand, even in a period of strong economic growth and considerable price inflation, undoubtedly some communities and surely many individual parcels of land have lagged far behind the general trend or have even experienced some value decrease.

#### IMPACT OF EXISTING TAXES

Two present revenue instruments have an important direct bearing upon land taxation: (1) most significant is the property tax; and (2)

some of the increases in land value that are realized when real estate changes hands are subject to income taxation. Various other revenue devices are of relatively minor importance with respect to land taxation—for example, local special assessments, estate and inheritance taxes, and the property-transfer taxes imposed in some States.

#### *The property tax*

Real estate makes up most of the base for general property taxation—in a few States all of it. Except for vacant lots and for rural acreage without structural improvements, taxable realty has two components of value—the underlying land, and the attached structures. About 40 percent of the total market value of "ordinary real estate" in 1966 was traceable to the land, and about 60 percent to structures. These proportions, of course, differ widely among types of realty. Following are typical land-value percentages suggested by data for 13 major assessing areas in various parts of the country:<sup>2</sup>

One-family nonfarm houses.....	26
Other nonfarm residential property.....	17
Commercial property.....	34
Industrial property.....	19
Acreage and farms.....	85
Vacant lots.....	100

If, in the assessment of property, land values were appraised at the same proportion of current market worth as structural values, then about four-tenths of all the yield of the property tax from real estate might be attributed to the land. But this condition is not generally found; a materially lower level of valuation often applies to land than to structures.<sup>3</sup> Probably, nationwide, the bias averages about 3 to 2 against structural values. On this basis, it can be estimated that only about 30 (rather than 40) percent of all property tax revenue from realty is based upon the land-value component of ordinary real estate. With allowance for the yield from personal property and State-assessed property, the land-value part of the entire official tax base supplies only about 23 percent of all property tax yields, or about 10 percent of State and local revenue from all types of taxes.

This still involves a very large sum—\$6.4 billion in 1966, out of property tax yields of \$27.7

<sup>2</sup> These are the 13 major assessing jurisdictions (2 cities and 11 counties or city-counties) containing cities of 100,000 or more for which a breakdown of assessments between land and improvements, by type of property were obtained in the 1967 Census of Governments.

<sup>3</sup> Two sets of evidence may be mentioned—findings from the regular assessment ratio studies of the California State Board of Equalization, showing Statewide and for most individual counties an assessment ratio of structures about half again higher than that for land; and the findings of the Census of Governments for 1957, 1962, and 1967, in each instance recording for most states a similar divergence in assessment land for vacant lots as compared with improved urban properties, as measured for real estate transfers.



billion. The indicated average effective rate of land taxation was about 1.24 percent, while that for structures on ordinary real estate was about 1.86 percent.

These nationwide proportions, of course, do not reflect the great diversity in levels of land taxation found in particular areas. There is a range of over 1 to 5 in statewide averages of effective property tax rates, and a far greater range among particular local areas.

The widespread tendency for assessment bias in favor of land value can be partly explained by the time lags involved in property taxation. Property tax levies are imposed annually and are supposed to apply to values as of some particular date. However, comprehensive revaluation typically is done at several-year intervals; aside from uniform percentage adjustments that are sometimes applied to all individual valuations, interim changes in the assessment rolls are commonly only those needed to take account of new construction, alterations, and demolitions. Thus, especially where urbanization is pushing land prices up, the official assessments will inevitably tend to understate land-value proportions *at the time taxes are applied*, even if the assessments were correct when first made. This can be illustrated by considering a single-family house accurately appraised at \$15,000, including \$5,000 for the lot and \$10,000 for the structure. Assume, for example, structural depreciation at only 2 percent annually (and no material changes in construction costs), together with a 6 percent annual increase in the value of underlying land: then, a careful appraisal 3 years later would show relatively little change in the total worth of the property, but a land-value proportion of nearly 39 percent, rather than 33 percent as when initially appraised.

Assuming, as we do, that uniformity of assessment should be a major objective in property taxation, the widespread effective discrimination between land and structural values is another example of the need for major change in present assessment arrangements and practices.

#### *Income taxes*

"Realized gains" from sales of real estate (as well as from other "capital assets") are part of the base for Federal taxes upon individual and corporate income, and for most corresponding State taxes. However, under the Federal law, income of this kind receives special treatment (except for gains on property held less than 6 months): it is taxed at only half the highest marginal rate applying to the taxpayer's income, with a top limit under the Federal law of 25 percent for capital gains. Similar "capital gains" treatment applies in 26 of the 35 States

having broad-based individual income taxes; in the other nine States, "ordinary income" treatment applies. At least one major reason for the special discounting of capital gains is to alleviate the effect of treating as income in a particular year, under a graduated tax-rate schedule, capital gains that have accrued over several years.

Only a very small proportion of the income tax base can be specifically traced to capital gains: for the Federal individual income tax, only 2.1 percent of all "adjusted gross income" reported for 1966. (However the capital gains provisions have more importance, in many ways, than this might suggest.) It is not possible to identify separately all taxable gains on real estate from those involving other types of capital assets. However, a rough order of magnitude may be estimated.

A special study of the Internal Revenue Service showed \$2.8 billion of reportable gains from real estate sales specifically reported by individual income-tax filers for 1962.<sup>4</sup> Assuming that other broader categories of reported capital gains included an additional one-half as much, the 1962 total would be \$4.2 billion, possibly increased by 1966 to something over \$5 billion, or a little over 1 percent of the gross base ("adjusted gross income") for Federal individual income taxation. The average percentage relationship of income tax liability to all adjusted gross income was only 12 percent. However, a higher average rate—perhaps 20 percent—might reasonably be assumed for taxpayers who reported gains from realty. On this basis, the tax amount involved would be something over \$1 billion, of which an indeterminate fraction—perhaps half or more—would relate to realized gains from increased land values. Since a predominant portion of all real estate is owned by individuals or partnerships, rather than by corporations, land-value gains realized by the latter are undoubtedly much less. It would thus appear that surely no more than \$1 billion of annual Federal income tax revenue could be attributed to realized gains in land value. Corresponding State income tax amounts would probably be less than one-tenth as much.

These estimates emphasize (1) the far lesser impact of income taxation than of property taxation with respect to land values; and (2) the relatively minor yield of income taxation in relation to the rapid growth than has been occurring in land values, as described above.

One limiting factor on the latter score is the large degree of effective exemption that is pro-

<sup>4</sup> U.S. Treasury Department, Internal Revenue Service, *Statistics of Income, 1962: Sales of Capital Assets Reported on Individual Income Tax Returns* (Washington, D.C., 1966).

vided, under the Federal income tax, for capital gains resulting from sales of owner-occupied homes. Even more important is the fact that the tax applies only to "realized" gains, while the value increase estimated above is for all privately owned land—not just that which changed hands. However, crude estimates can also be made of the total amount of gains in land value that are being currently realized through property transfers.

The Census of Governments indicates for 1967 about \$53 billion worth of real estate involved in ordinary arms-length sales.<sup>5</sup> Another recent careful study has estimated \$19 billion worth of realty transferred at death in 1967.<sup>6</sup> The 1962 IRS study of capital gains, cited above, showed that about 30 percent of the selling prices for real estate sales reported by individuals consisted of capital gains, and the study of death-transferred realty estimated that 41 percent of the market value of such property represented an increase in its value. Altogether, these figures suggest that in 1967 approximately \$72 billion worth of real estate changed hands, including some \$24 billion of capital gains—nearly \$8 billion for property transferred at death and the other \$16 billion for ordinary market transactions.

How much of these amounts should be estimated for land is, of course, conjectural. Probably a major portion of the total indicated gain—perhaps \$15 to \$20 billion—should be regarded as currently realized increase in *land* value (despite the fact that structures outweigh land in total present value, since unit land values have been rising much more rapidly than construction costs).

One major reason why related income tax yields are so small (estimated above at around \$1 billion), is that any increase in value that has occurred from the time an individual acquires a capital asset up to the time of his death is entirely exempted from the individual income tax. As has been indicated, about one-third of all the value increase estimated for real estate changing ownership in 1967 involves such "decedents' unrealized capital gains." This gap in the income tax system, of course, is not limited to real estate but also extends to security holdings and other types of capital assets.

#### *Other land-related revenue sources*

"Special assessments" are used to a rather limited degree for local government financing. In 1966, revenue from this source amounted to only \$529 million, or about 2 percent as much

as property tax yields. This figure, according to the Census Bureau definitions, is for amounts "collected from owners of property benefited by specific public improvements (street paving, sidewalks, sewer lines, etc.) \* \* \* and apportioned according to the assumed benefits to the property affected by the improvement." In the Census reporting, this concept is limited to capital-improvement charges which are based upon some such measure as land area or front footage of properties; it does not extend to "assessments" or supplementary taxes that are based upon the value of benefited properties, which are treated as property taxes. Most special assessments are for sewer projects and street improvements, with a minor part relating to conservation projects.

Effective and equitable use of special assessments, as thus defined, requires that benefits can be reasonably allocated to individual properties. This is especially feasible for specific or small-area projects of a sort likely to serve abutting or nearby property holdings. Special assessments seem far less feasible or appropriate to recapture gains that result from public actions that have widespread or diffused effects. There is relatively less use of this revenue device today than in the 1920's. Overly optimistic use of assessment-financed debt contributed in some areas to the serious financial difficulties encountered by local governments during the great depression. Also, in recent years private developers have increasingly been required to provide for types of subdivision improvement that in earlier periods were more commonly financed publicly, often through special assessments.

So-called "death taxes"—i.e., those applied to estates or inheritances by the Federal Government and by nearly all the States—also are related to real estate and land values, since such assets are part of the tax base. However, their impact is relatively limited, especially because only a minor part of all real estate ownership rests with individuals whose total holdings at death are large enough to make the transfer of property subject to estate or inheritance taxation. Of the approximately \$19 billion worth of real estate transferred at death in 1967, only about \$5.5 billion was in estates liable for Federal estate taxation. However, realty holdings accounted for a little more than one-fourth of all wealth of decedents in the "estate class"—i.e., potentially subject to Federal estate taxation.<sup>7</sup> If this proportion is assumed for the total yield of Federal and State death taxes (respectively \$3 and \$0.8 billion in 1967), the amount based upon realty holdings might be estimated at about \$1 billion. Again, the land

<sup>5</sup> Unpublished data, to appear in *Taxable Property Values* (Volume 2, 1967 Census of Governments).

<sup>6</sup> Bernard Okun, "The Taxation of Decedents' Unrealized Capital Gains," *National Tax Journal*, Volume XX, No. 4, December 1967, p. 385.

<sup>7</sup> *Ibid.*



value portion is conjectural, but in this instance it seems reasonable to assume the same share that land represents of all existing real estate values; i.e., about 40 percent. On this basis, death-tax yields include some \$400 million annually that directly pertain to land.

In 30 States a tax is imposed on transfers of real estate, by the State or local governments or both. In most instances these involve a nominal rate—commonly about 0.1 percent of property value—but there are several instances of a 0.5 percent rate, and three States (Delaware, Pennsylvania, and Rhode Island) with a 1 percent rate. As this indicates, most of these laws were not enacted for revenue purposes, but, instead, to obtain information that would aid in property tax assessment. Their total annual yield is probably well under \$100 million, with most of this obtained by the few jurisdictions having higher than nominal rates.

While most of the foregoing figures are subject to some degree of possible error, the indicated orders of magnitude are probably reasonable. Altogether, the figures suggest annual yields of taxes relating to land or land-value increases that in recent years have amounted to about \$8.4 billion, with property taxation accounting for about three-fourths of this total. Altogether, this equals about 1.7 percent of the estimated total value of privately owned land.

#### THE CASE FOR INCREASED LAND VALUE TAXATION

At the outset of this chapter, brief reference was made to arguments in favor of taxes upon land value or land-value increments, especially as compared with other methods of taxation. Following is some further discussion of this matter.

##### *Recapture of socially created values*

The value of land results from its present and prospective use for any of various productive purposes. Economists of the 18th and 19th centuries analyzed differences in value of various pieces of agricultural land by reference to their relative fertility. But they also observed that equally fertile plots differed in value because of their locations: those nearer to markets were worth more because of the lesser cost of marketing. The added worth of the better-located plots, as compared with that of the most distant land needed to meet all market needs, was recognized as a "rental value," which had no direct relation to the property owners' efforts but could be attributed solely to the differing locational advantages of their land. The concept of "economic rent" has since been broadened to various other factors of production, but for land it still is important largely from the standpoint of location.

It is evident that the value of particular pieces of land is tremendously influenced by their location, especially as this affects the way they can be used. Most remote "rural" land can at best be used for agricultural purposes, though of course with a great range in its unit value for such use because of differences in its fertility and location. But "urban" land is subject to use in a wide variety of economically productive ways. As is well known, there is an enormous range in the unit value of land in urban areas, depending upon its suitability for particular uses. Land costs range in large cities from hundreds or even thousands of dollars per square foot in central business locations that have unique access to many thousands of customers down to a small fraction of that amount in residential neighborhoods—but with land in such neighborhoods still worth much more, because of accessibility and other factors, than outlying suburban land.

All this is rather obvious. But it helps to emphasize that *land value results largely from social and governmental factors*—i.e., the geographic clustering of people and economic activity, and the provision of public services and facilities that are essential to such "urban" areas. Furthermore, subject to one important exception, the bulk of the recent rapid rise in land values in the United States can reasonably be attributed to the growth of population and urbanization, with attendant public facilities. The exception involves some agricultural land for which, as a result of marked technological progress (by fertilization, new plant strains, mechanization, and the like) there has been a strong shift upward in prospective crop yields relative to farming costs. Aside from this, most of the rise in value can reasonably be attributed to (1) the shift of much land from less to more intensive uses, (2) the outlook for further similar shifts in the years immediately ahead, and (3) the strong effect of such changes upon the anticipated flow of land-rent returns.<sup>8</sup>

Accordingly, the "social" argument for taxation of land value and, perhaps even more specifically, of increases in land value, is: since such values result largely from social and governmental factors, rather than from actions by the property owners, it is entirely proper for government to capture through taxation a significant part of the economic benefits that flow in the first instance to private landowners.

<sup>8</sup> For example, accepted capitalization formulas indicate that, if there were a prevailing interest rate of 6 percent which did not change, the value of a non-depreciable asset such as land would be 50 percent more with an expected regular annual rise of 2 percent in net rental returns than with an expectation of unchanging amounts of return.

There are obvious limits to the argument: (1) a recurrent tax upon existing land values will tend, by the process of "capitalization," to lower such values; to add a heavy tax of this nature may well involve significant questions of equity as between owners whose properties were recently acquired and longer term owners; and (2) a very high rate of tax upon land value increments might seriously limit the effect of the market in "rationing" land use on an economically desirable basis. Subject to these qualifications, however, the social argument for taxation of this nature is highly persuasive.

#### *Present undertaxation*

Another consideration involves the preferential treatment that is given to land, or to capital gains including those from land, under the existing revenue system. As detailed above, this especially involves property taxation: through faulty assessment the effective tax rate upon land probably averages only two-thirds that upon structures. The loophole in the personal income system with regard to "decedents' unrealized capital gains," is not limited to land value gains. In its entirety, however, this gap involves a significant revenue loss for the Federal Government, as well as a major bias in the income tax system. With respect to land, it undoubtedly also has a "lock-in" influence upon owners of real estate, adding to other incentives toward speculative retention of land holdings. The special tax treatment of "capital gains" income also covers other assets as well as land, and in many instances—especially for long term holdings—probably provides a crude approximation of equity. In many instances also, however, it represents an extremely generous preference for the "capital gains" involved, as compared with "ordinary income."

#### *Land versus improvements*

We have repeatedly emphasized the need to deemphasize property taxation as a predominant source of urban government financing. Yet, as pointed out above, land makes up an important part in the base for such taxation and we are here considering some additional tax burden upon land values. The seeming inconsistency demands clear explanation.

The same question may be raised in another way. It might be argued that the owner of a particular property is concerned about the amount, but not the basis for, a tax placed upon it. More specifically, for example: if some additional tax is imposed upon an apartment-house property, the owner's income position will be damaged unless he can increase his rental charges to cover the added costs. It would seem to matter not at all, in this case, whether the tax is based upon the value of the underlying

land or upon the total value of the property—land plus structure.

*In shortrun terms*, the case just described is completely logical. But in the longer run, the basis for the tax does matter, mainly because the supply of land is substantially fixed while the supply of structures can be expanded by construction. Over time, therefore, a different set of adjustments can be expected from a tax based upon land values than from a tax based upon the total—including structural—values of realty. The prevailing view of economists in this regard has been expressed as follows in a recent authoritative study:<sup>9</sup>

It is generally agreed that taxes on the value of bare land—the sites themselves \* \* \* rest on the owners of the sites at the time the tax is initially levied or increased. The tax cannot be shifted, because shifting is possible, under reasonably competitive conditions, only if the supply of sites is reduced. But the supply of land is, for all practical purposes, perfectly inelastic. Individual landowners will not respond to an increase in land taxes by withdrawing their sites from the market, since doing so will not affect their tax liability. Indeed, their only chance of reducing the burdensomeness of the tax relative to their income streams is to seek to raise the latter by encouraging more intensive use of the site they own. Collectively, landowners cannot reduce the stock of land: if individual landowners wish to liquidate in the face of higher taxes, they must sell the sites to other owners.

Thus, increased taxes on bare land values will reduce the attractiveness of investing in land vis-a-vis other assets but will not destroy the land itself. Therefore, land prices will fall: the taxes will be capitalized. Land rents before taxes are unchanged, but because of higher taxes, after-tax returns are lower, and investors offer less for land \* \* \*.

In theory, property taxes on [housing] improvements \* \* \* can be expected to be shifted forward to \* \* \* occupants of housing.

Dr. Netzer points out various limitations and qualifications that apply to these summary basic generalizations. For example:

\* \* \* For structures, the period elapsing between the old and the new equilibria can be long indeed because the annual increment to the supply of structures is a small fraction of the supply \* \* \*.

The partial and unequal nature of the property tax itself is a further impediment to the shifting of taxes on buildings \* \* \*. Incidence analysis starts with a closed national economy and examines taxes which are generally applicable at uniform rates. But the real-world property tax is a local institution with widespread variation in both rates and coverage \* \* \*.

As for the portion [of a tax on reproducible capital] which is not shifted [forward]: in the long run, differentially high local taxes on reproducible capital should have an adverse effect on local economic activity and the taxes will consequently be shifted backwards to local landowners by reducing local land values.

In general, a significant portion of taxes on buildings in cities may be shifted backwards to landowners, partly because of the competition of sites in nearby jurisdictions or other cities with lower tax rates \* \* \* [and because] zoning and building code regulations, together

<sup>9</sup> Dick Netzer, *Economics of the Property Tax* (The Brookings Institution, Washington, D.C., 1966), pp. 33-34 and 36.



with gross differences in accessibility within larger cities, greatly restrict the use of individual sites \* \* \*. To the extent that this holds true, increased taxes on existing structures will tend to be shifted backwards to landowners \* \* \*.<sup>10</sup>

Nevertheless, in attempting to measure the impact of the property tax upon urban housing, Dr. Netzer follows the prevailing incidence theory to observe (*italics added*):

*\* \* \* Taxes on housing (other than the land component) are borne by the occupants of the property, whether owners or tenants. Owner occupants at the time the tax is imposed or increased will suffer a capital loss, which will be realized when they sell. Owners of rental property confronting an inelastic demand \* \* \* will raise rents and pass on the tax promptly; other landlords will suffer reduced net earnings, and over time, the deterrent to new investment will shrink the supply of rented housing and raise its price.<sup>11</sup>*

Thus, when long-range rather than merely short term effects are taken into account, there is a significant difference in the potential impact of a tax upon land values, as compared with a tax that also hits structural values: the latter, by adding to the cost of construction and property maintenance, tends to deter real investment in housing and other structural improvements, while the former tends primarily to reduce the market value of land. This latter effect, through the process of capitalization, may be viewed as public recapture of a portion of the total economic-rental value of the property.

All this lends support to the view that some increased reliance upon land-value taxation—particularly if this might also help to reduce high rates of property tax upon structural values—would be a desirable development. By stemming or at least slowing the upward spiral of urban land costs, such action might be expected to (1) make feasible some housing and other construction that would not be economic; and (2) reduce present incentives for speculative holding of urban and urban-fringe land in vacant or underutilized form.

#### POSSIBLE FORMS OF ACTION

Elsewhere in this report, the Commission is proposing certain activities that would, if carried out, involve some relative increase in the taxation of land values, such as more uniform and up-to-date assessment for property taxation. Various additional ways might be considered to increase the taxation of land values or land-value increments as such. These include:

1. Differentially higher taxation of the land portion of values subject to general property taxation, possibly extending to final complete exemption of structural values (i.e., "site value taxation").

2. A separate recurrent tax upon land values as such.

3. Differentially heavy taxation of capital gains from real property transactions or land-value increments under income tax laws.

4. A separate tax upon land-value increments, primarily through a "transactions tax" procedure.

Subject to some possible constitutional barriers, as mentioned below, any of these four might be used by State governments, or on a State-local basis; on the other hand, only the capital gains or transactions tax approaches (alternatives 3 and 4) might be considered for Federal Government use.

Following are comments on these several alternatives:

1. *Action toward site-value taxation.*—This is probably the most widely heard proposal. On its behalf, in addition to the general propositions stated at the outset of this paper, it is often urged that:

- (a) Equitable valuation of land value is at least as feasible as sound valuation of entire properties.

- (b) Since assessors already record separate land and improvement components in their valuation work, a shift toward site-value taxation could readily be built upon existing institutions, without demanding any major new administrative machinery.

- (c) As compared with alternatives that might demand State or Federal taxation, this approach deals with property on a local basis, so that resulting revenues flow directly to areas that are experiencing material changes in land value through urbanization and the like.

- (d) As compared with an attempt to tax only future land-value gains, this approach would tap high present land values which, it is argued, have resulted largely from social developments rather than from actions by the property owners.

- (e) Relatively low rates of taxation against land values could be expected to yield relatively large amounts of revenue—far more than could be expected from taxes on land value increases, unless those involved very high rates.

However, on the negative or questioning side, at least the following points might be noted:

- (f) In many states, existing constitutional provisions with regard to tax uniformity would probably have to be changed to permit differential taxation of land values.

<sup>10</sup> *Ibid.*, pp. 37–39.

<sup>11</sup> *Ibid.*, p. 45.

(g) A direct full shift from the existing property tax system to reliance upon site-value taxation for the same amount of revenue would be out of the question, except in areas where property tax rates are now very low, because of the sharp differential impact of such a change upon various properties.<sup>12</sup> Therefore, the most that could generally be considered would be a shift toward site-value taxation, with relatively higher taxes upon land than upon structural values subject to property tax.<sup>13</sup> This means that the choice is not, as suggested by foregoing item 1(a), between valuing only land and valuing entire parcels of realty as at present; rather, *both* kinds of assessing would need to be done.

(h) Although, as stated in item 1(b) above, most present assessment systems provide for separate recording of land and improvement parts of the value of individual properties, the distinction has no direct bearing upon the amount of tax liability and thus, understandably, is of doubtful significance in many assessing jurisdictions. A shift toward site-value taxation that did make this distinction important, then, would demand much more change in existing assessment methods than item 1(b) suggests.

(i) The argument for specially heavy taxation of existing land values on the ground that they represent "unearned" wealth (point 1(d) above) ignores the fact that present owners acquired their holdings at various times, ranging from the remote past up to only yesterday. Yet a site-value tax makes no distinction on this score.

(j) The ostensibly "low" rates of site-value taxation suggested by point 1(e) above are actually rather illusory. If one

assumes a 6-percent "capitalization rate" (i.e., that a property is expected to yield, in recurrent rentals and prospective value increases, discounted to the present time, 6 percent of its current market value), then the imposition of an additional recurrent annual tax of 1 percent on the value of a property would in the first instance involve a reduction of *one-sixth* in its net annual yield to the owner.

2. *A separate recurrent tax upon State-assessed land values.*—This device might be considered a candidate for direct State administration, even though it should be entirely feasible for the resulting revenue to be returned to local governments on a place-of-origin basis or otherwise. (Conceivably, as an alternative to complete State administration, including tax collection, some arrangement might be provided for local collection jointly of general property taxes and the State-imposed tax on State-assessed land values.)

For this alternative, it could be argued that:

(a) Such a new and separate taxing system, relating solely to land, might be designed to cover not only realty subject to general property taxation but also all or most public and semipublic land holdings that generally fall outside the property tax base; this should operate toward more rational land-use decisions.

(b) A separate State-administered system could avoid the problems mentioned (at items 1 (g) and (h) above) that would be involved in trying to operate through inherited general property tax machinery.

(c) At least over time, experience and data developed through this system might contribute to improved general property tax administration.

On the negative side, the following considerations need to be noted:

(d) A relatively extensive administrative effort would have to be undertaken, presumably involving recording and valuation of a large volume of realty parcels (nearly one for each three persons in the population) for the new tax as well as for general property tax purposes, and either duplicative tax-billing or some well-planned system for coordinated billing and collection.

(e) The equity question raised above (at item 1(i)) with regard to specially heavy taxation of all present land values through the general property tax system would also apply to this device.

3. *Special income-tax treatment of land-value gains.*—This approach would presumably operate through either the Federal income tax

<sup>12</sup> If, in 1967, as much revenue had been sought from property taxes on land alone as was obtained from general property taxes on all locally assessed realty (including structural as well as land values), an average effective rate of about 7 percent would have had to apply. (This assumes a capitalization rate of 6 percent, so that the market value of taxable land would have dropped from its estimated worth of about \$523 billion when subject to tax at 1.24 percent down to about \$287 billion when taxed at a rate high enough to yield the whole \$20.7 billion obtained from property taxes on all locally assessed realty. In the short run, pending resulting effects upon new construction, there would presumably have been a matching rise in market value of taxable structures.)

As indicated by the land value proportions shown on page 385, a complete switch from total value to land value only as a basis for general property taxation would drastically alter the proportionate liability of major property classes. The same would be true for individual properties within the major classes. The effect within any particular taxing jurisdiction would, of course, depend upon the land-improvement "mix" for individual properties relative to that for all taxable property in the area.

<sup>13</sup> This approach, on a gradual basis, was provided in the two major American jurisdictions (Pittsburgh, and Hawaii) that have authorized a shift from the usual practice of uniform tax rates to differentially higher taxation of land values. The same is true for adoption of such a system (sometimes termed "the Pittsburgh plan") in a few smaller American jurisdictions and in various Canadian municipalities.



system, or the income taxes of States having such levies, or both. As a minimum, it would provide for distinctive recognition and tax treatment of taxpayers' realized gains that result from increments in land value. Some points in favor of such an approach are these:

(a) Above all, this approach would be based mainly upon value-gains indicated by market transfers of real estate. This would avoid the need for regular accurate appraisal of large numbers of currently untraded properties, called for by the foregoing alternative devices.

(b) Taxation of this kind would be more closely attuned than broad land-value taxation to one of the suggested basic objectives—i.e., to tap emergent increases in land value, as distinct from values which have developed in the past.

(c) This approach would avoid the difficulties cited above for hazardous recasting of the existing property tax system (as under the site-value approach in item 1) and the need to establish an extensive comprehensive valuation machinery (as required by item 2).

(d) This approach presumably could take advantage of established Federal and/or State machinery for income tax administration. Since only a rather minor fraction of real estate is sold in any one year, the annual volume of properties or taxpayers directly involved would be far less than under the foregoing alternatives. It should also be feasible to limit the scope of the tax, without inequity or serious impairment of its desired effects, by exempting land-value gains pertaining to owner-occupied residences.

(e) Only modest additional tax-filing burdens should be involved. Present requirements for reporting of capital gains supply much of the basis needed for separate treatment of land-value gains—including, as to improved properties, a distinction between land and structural value in order to permit figuring depreciation on the structure portion.

Following are some of the problems or questions that might be raised about this device:

(f) Unless handled through the Federal income tax system, this approach could presumably not be applied now in the 15 States which lack State income taxes.

(g) If such higher taxation were to apply only to land-value gains that occur after its imposition, it would be necessary to provide feasible means for valuation of

landholdings as of the enactment date. (Various possibilities might be considered, including an information reporting by property-owning taxpayers at the outset of the system and/or by providing that the potentially taxable gain computed when a property is finally sold should be, *prima facie*, the same proportion of the total gain since it was acquired as the interval after tax enactment bears to the total period of ownership.)

(h) A tax of this nature could be expected at the outset to provide only relatively minor amounts of revenue, although its yield might later grow to sizable proportions.

(i) The biggest issue with this approach involves the question: Unless the taxation of "realized" gains is supplemented by some arrangement for at least periodic taxation of land-value increases for properties that do *not* change hands, would there be so much avoidance through trustee and corporate-holding arrangements as to seriously limit the coverage, intended effects, and equity of the tax? This problem deserves intensive consideration. (Perhaps such prospective gaps could be prevented by having a related tax on realized gains from sales of the stock of landholding corporations—e.g., those with more than  $x$  percent of their assets in the form of land—and by closing the death-gains loophole in the income tax system. Otherwise, it might be necessary to require calculation of *accrued* land-value gains on properties that remain unsold after some such interval as 10 years from their acquisition; tax liabilities thus determined could be granted a lengthy payment interval, subject to the accrual of interest on deferred amounts.)

(j) Special taxation of land-value gains logically seems to call for heavier taxation of rapid increases in value than of increases that involve a lesser rate of rise. This would involve a departure from the rate pattern generally used for income taxation—i.e., progressive in terms of individual taxpayers' incomes and generally uniform for corporations. While it should be feasible to apply a different approach to land gains disclosed by income tax returns, this would add further complications to reporting forms and requirements that are already complex. In other words, the seeming advantage of working through an existing income tax system may be illusory, or may involve disadvantages for that system itself.

4. *A transaction tax on land-value increments.*—This approach might be applied by either the Federal Government or by States. A majority of States already impose taxes on transfers of real property, and the Federal Government also did so prior to 1965. Those taxes, however, generally involve only nominal or low rates, usually do not apply to any indebtedness assumed by the purchaser, and take no account of gain or loss involved in the transaction, the land value portion, or the period of ownership.

Since there is no direct precedent in this country for the type of land-gains transaction tax being considered, it may be useful to summarize its main possible characteristics. The pros and cons listed below refer to a tax that would—

(1) Apply to gains in land value arising after enactment of the law;

(2) Relate primarily or entirely to gains realized through ordinary arms-length sales;

(3) Have “progressive” rates related to the average annual rate of taxable gain (for example, 5 percent on the first 4 percent of annual increase from adjusted cost; another 10 percent on the part of the annual increase from 4 to 6 percent; et cetera, up to a relatively high total rate for, say, any portion of the taxable increase above 20 percent annually);

(4) Provide some closed-end exemption for gains involving owner-occupied properties (e.g., those with transferred land valued at up to \$20,000; such an exemption should be designed to limit the system substantially to gains on property owned mainly for investment);

(5) Perhaps provide for an “inflation adjustment” of the original cost (deductible from sales value in determining gross gain) by reference to some broad-coverage measure of price level, such as the consumer price index; and

(6) Probably require informational filing by the property seller at the time of transfer, but with official administrative calculation and billing of the tax due.

Following are some of the arguments that might be made for such an approach:

(a) This device would have the same advantages as those cited above for special income-tax treatment of land value gains (at items 3(a), 3(b), and 3(c)), in avoiding widespread recurrent appraisal of untraded properties, focusing upon emergent increases in land value, and not directly affecting the present property tax system. Fur-

thermore, it would facilitate tax rates focused especially at rapid increases in land value.

(b) As compared with the first two alternatives above, which could only be considered for State or State-local action, this tax might be levied by either States or the Federal Government, or both.

(c) The volume of real property transactions is sufficiently modest to make the administrative task of limited proportions; and the suggested substantial exemption of owners’ residential sales would be helpful on this score. (Census of Governments data suggest an annual total of about 3¼ million arms-length sales of realty, of which at least 1 million involve owner-occupied properties.) Moreover, the workload would be on a flow basis rather than with annual “peaking” as under the income tax approach.

(d) While the rate structure and other features of the tax should be designed with recognition of related aspects of existing income tax laws, this could be done without directly complicating the administration of those laws.

(e) With this approach, coverage could be made comprehensive, including those individuals and institutions that now benefit by rising land values but are not reached by property taxes or by income taxes.

(f) The focus upon particular pieces of real estate, rather than income-receiving owners (as under the income tax), would facilitate any arrangement that might seem desirable for distribution of the revenue yield to the particular States or communities where land-value gains are taxed.

On the other hand, at least the following problems or limitations need to be noted for this device:

(g) One major question for this approach, as in the case of special income taxation of land value gains, is whether this tax might be so widely subject to avoidance by trustee or corporate-holding arrangements as to impair its intended effects or require at least intermittent appraisals of pieces of realty that had not been sold. The parenthetical comments at item 3(i), above, also apply here.

(h) Another question is whether a tax of this nature would tend unduly to “lock-in” investors in land. Such an effect seems much more likely for a tax of this kind than for a recurrent tax on land values.



(i) There may be some question whether such a separate additional tax could be designed and administered without disrupting equitable enforcement of present income taxes, and without placing unduly onerous burdens on some property owners. (Rates would, of course, need to be planned with due recognition of the income tax structure. Presumably, the new tax should not be allowed as an allowable "cost of sale" for computing taxable capital gains, since that would substantially remove the intended tailoring of its effective rates to the pace of increase in land values; this, in turn, would limit the maximum rates that might be considered for the transactions tax.)

(j) Question might be raised about the suggested discounting of general price level changes in computing taxable gains, as an unnecessarily complex feature. (An alternative, of course, would be to exempt completely some low percentage rate of gain; however, the specific price-level adjustment factor could be better defended on equity grounds.)

#### FURTHER STUDY RECOMMENDED

For a number of reasons, our Commission is not prepared, in the light of the background summarized above, to make a specific proposal for Federal action and widespread State-local action that might be designed to increase taxes upon land values or land-value increments. In part, our inability to do so arises out of the complexity of the issue, and the limitations and questions mentioned above with regard to each of the various major approaches to such taxation. More fundamentally, however, a majority of the Commission believes that any possible action toward increased land value taxation should be based upon much more detailed factual evidence than we have been able to consider in the relatively brief period available for our wide-ranging review of urban problems as a whole.

In support of this view, it may be noted that much of the "case" for land value taxation that was offered earlier in this chapter rests mainly upon deductive logic rather than upon findings from actual experience under conditions like those that prevail in the United States. As previously mentioned, there have thus far been very few experimental efforts toward "site value taxation" in the United States. The experience of Pittsburgh, which has had a limited approach of this kind for some time, is inconclusive.<sup>14</sup> The Hawaii system is too new and per-

haps too unusual in its nature and locale to offer strong transferable evidence. A recent review of experience with local governments' use of site value taxation in Australia and New Zealand found little or no evidence that such taxation has provided there the beneficial effects upon land use which are claimed by some advocates of this alternative to ordinary property taxation.<sup>15</sup> The authors point out possible reasons for this, including the fact that effective tax rates there are considerably below prevailing levels in the United States.

These reservations, of course, are not conclusive. It is often necessary in matters of taxation to rely heavily upon logic and deductive reasoning, rather than upon detailed "hard" evidence of the results of a particular action or tax form. Nevertheless, the complexity of the issues involved in this instance seem to the Commission to preclude our offering any specific proposal for additional taxation of land values or land-value increments in the United States. We do believe, however, that the problem merits intensive further exploration. Accordingly, we offer the two proposals stated below:

#### Recommendation No. 1—Treasury study of land value taxation

The Commission recommends that the President direct the Treasury Department to undertake promptly an intensive study of means by which Federal taxation might be used to recoup for public purposes a materially increased portion of increases in land value, to prepare and publish its findings, and to submit specific recommendations on this subject for consideration by the President and Congress.

As previously indicated, two types of possible Federal action seem especially to deserve careful appraisal—adjustments of the Federal income tax system to provide for differentially higher taxation of gains in land value than of other capital gains, and a specially tailored "transactions tax." However, there may be other alternatives or combinations that should be examined.

#### Recommendation No. 2—State action concerning land value taxation

The Commission recommends that the State governments vigorously explore the desirability and feasibility of placing new or differentially higher taxes upon land values or land-value increments.

This proposal takes account of the strong pressures that exist throughout the Nation for

<sup>14</sup> See *Hearings Before the National Commission on Urban Problems*, Volume 1, pages 277–352.

<sup>15</sup> A. M. Woodruff and L. L. Ecker-Racz, "Property Taxes and Land Use Patterns in Australia and New Zealand," *The Tax Executive*, Volume XVIII, No. 1, pp. 16–63.

increased State-local tax revenue, and of the related need to deemphasize general property taxation and thereby limit the tax burden placed upon residential construction and maintenance. We see land-value taxation, or adjustments of State income tax laws to obtain increased revenue from taxable land-value gains, as potential

ways to help deal with these critical issues. As in so many other areas of governmental experience under our federal system, it will be especially helpful if innovative action can be successfully carried out by even only one or a few States, as background for consideration in other parts of the Nation.

## Supplementary Views on the Taxation of Land Values

### I

The Commission has done well to recognize some of the injustices connected with the taxation of land or location values. Hitherto, land has generally been taxed at proportionately less than its fair market value in comparison with the rates on improvements and buildings. To tax both of these types of real property on the basis of what they would bring in the market would be, in the first place, only common honesty. This is no more than the State property tax laws have long required. Obeying instead of disregarding the law would also have the wholesome effect of causing some shifting of investment toward buildings and improvements and away from land speculation. Lessening the relative tax burden on structures should, therefore, reduce one of the obstacles to the construction of new housing.

We regret, however, that the Commission as a whole did not see fit to endorse some wider applications of the Pittsburgh plan, which taxes the gifts of nature—such as land—at twice the rate that it taxes the products of men's labor and saving. For this would further diminish the burdens on effort, and hence stimulate improvements. We believe Pittsburgh was on the right track when it introduced this differential tax system. But unfortunately the plan as practiced in the Pittsburgh-Allegheny County area does leave much to be desired. Only the city uses the differential rate, while the school board and the county continues to tax according to the old uniform rate. This has seriously diluted the effect of the reform creating a combined land-to-building tax ratio of 4 to 3 instead of 2 to 1. This has meant that only a fraction of the plan has been put into practice.<sup>16</sup>

The statistics derived by Allen Manvel,<sup>17</sup> however, are the clincher. He shows that whereas bare land values amounted to \$269 billion in 1956, they had amounted by 1966 to \$523 billion.

This meant that they had virtually doubled in 10 years, and had experienced an average yearly increase of \$25 billion. We have checked with other scholars concerned with value trends and they inform us that they have no serious question about these findings. Other reliable sources show land values rising even faster in some States such as California.

The owners of the land received these enormous gains without strain or effort on their part. They owned a relatively scarce and limited asset which acquired more and more value as population grew and as the gross national product increased. The progress of society created these values; the owners of the land received them.

Someone once classified incomes into three divisions: earnings, findings, and stealings. This enormous increase in land values is most certainly *not* a stealing, and we want to make it crystal clear that we do not regard it as such. Men of the purest character have shared in these gains without loss of virtue. But if these gains are not a stealing, they are also most certainly not an earning. They are instead almost a pure finding. The increase of more than \$250 billion in the value of the land was not caused by the labor or abstinence of its owners. It was instead an unearned increment.

This increase occurred when the Nation's population rose from 169 to 197 million (an increase of 16 percent), and when the gross national product rose from a little over \$2,400 per man, woman, and child to \$3,750. This was a gain of about 55 percent. Hodge and Hauser now project a total population of 252 million by 1985, or 50 million (25 percent) more than now.<sup>18</sup>

What then will be the future increase in land values? Barring a shakedown from a prolonged depression or widespread destruction by a nuclear war, we can safely predict that there will be enormous further increases in land values during the next 17 years, and even more by the end of the century.

<sup>16</sup> See Hearings, Vol. 1, pp. 277-352. Mayor Joseph M. Barr said the Pittsburgh tax "has generally helped to encourage the improvement of real estate, especially the building of large commercial office structures. I also believe this system has been particularly fair and beneficial to homeowners," p. 313.

<sup>17</sup> Allen Manvel, Associate Director of the Commission and former Chief of the Governments Division, Bureau of the Census, and author of Commission Research Report No. 12.

<sup>18</sup> *The Challenge of America's Metropolitan Population Outlook—1960 to 1985*, by Patricia Leavey Hodge and Philip M. Hauser, Commission Research Report No. 3.



The owners of the land can go to Hawaii and rest languidly on the beaches or make prolonged safaris into the inmost regions of Africa. They may study Shakespearian literature at Stratford on Avon, or Zen Buddhism in Japan, or ponder urban problems in Washington. They can go up in space capsules or down a hole in the ground. They will become richer and richer without toil or sweat. For, as Doctor Johnson once remarked in another connection, here are "riches beyond the dreams of avarice."

## II

Just below the surface of American life, therefore, there lies the question of whether we should allow this to happen without let or restraint, or whether we should try to take at least a portion of these socially created gains for the benefit of the society which created them. Such a discussion is now muted for a variety of reasons. When the issue is raised, the cynics commonly dismiss it by saying "Oh, that is the single tax" or "that is Henry George," as though by labeling the proposal they had somehow refuted or disposed of it. Then the few who have the courage to go beyond this dismissal are greeted with comments intended to sidetrack the fundamental thrust of the proposal. It is, for example, properly objected that neither local nor Federal Government should rely on the taxation of land values as the single source of public resources. The answer is very direct. Of course they shouldn't. The costs of national security in a world torn by strife between dictatorship and democracy and between conflicting national claims far outstrip any added revenue which we could obtain from land. So do the costs of an increasingly congested society and the demands of social justice towards the comparatively deprived. It is unfortunate that many advocates of the taxation of land values have fallen into this trap and delivered themselves over to their opponents by their excessive enthusiasm. An eminent American economist has referred to them as "the lunatic fringe of the single tax movement."

What we advocate is much more modest, namely that within a general system of taxation a special effort should be made for society to recapture for itself an appreciable share of the values which it has created. Even with these qualifications, the critics can multiply plausible although specious objections. It is urged that we should not single out land values for special treatment unless and until we move to appropriate the other forms of unearned increment, such as those from monopolies and semimonopolies, and inheritances. We probably should deal more adequately with these matters. But we pro-

test with all our strength against the common delusion that we cannot do anything until we have done everything. For that is the sure road to complete futility. This may be the desire of some. But it is not ours. There are far too many things for us to do, as this report well indicates. And they will cost money—much money. The taxation of unearned land values is an obvious source which would disturb the onward march of society far less than most alternative sources of revenue. Society can certainly deal with proximate issues and do so one at a time. This neglected issue may be the most important of all.

But what has fundamentally held back the spread of the idea has been the relatively wide diffusion of land ownership among the people of the community. We do not have the same concentration of ownership that prevails in Britain with its feudal remnants or in Latin America. Our homestead acts instead diffused the ownership of farm lands except in areas such as California. Some of this is now becoming urban and suburban land with an attendant skyrocketing of values. The intense and praiseworthy desire of families to own their own homes has not only helped to make the original owners more independent but it has also helped their children and grandchildren to levy tribute on those in future generations who are born into the world without land. And, finally, there are the pervasive land speculators who correctly see these values rising and foresee that an expanding population and a more productive technology will inevitably lead to a heightened bidding for the factor of production whose quantity remains relatively fixed and constant.

There are powerful forces which have operated and will continue to operate against any lucid consideration of the issues involved.

We feel that this pall of silence should not continue and that by speaking out now it is possible that we may generate at least a little added consideration of this crucial and relatively ignored subject.

## III

When we move, however, to the particulars by which these principles might be adopted, we find many obstacles and divisions but none of them, we believe, insuperable.

(1) An extreme position advocated by some "single tax" enthusiasts is to expropriate existing land values by taking for society the full economic rent, or the full rent minus a percentage returned to the owner to leave him an incentive to seek maximum rent from a tenant and otherwise to keep the real estate market "oiled." As we understand it, this method is

used in the single-tax enclaves of Arden, Del., and Fairhope, Ala. While the land in those places is not publicly owned, to apply this degree of taxation universally in the present society would amount to a virtual confiscation of existing land values. This would be a hardship to which we do not wish to consent. The present owners of land have been the innocent beneficiaries of past progress. Their wealth is, to repeat, a finding and in no sense a stealing. We do not believe they should be punished in any such drastic fashion. Nor do we believe that the American people would consent to such a policy.

(2) A somewhat more moderate approach with the same end purpose would provide for the gradual rather than the immediate public taking of all—or almost all—economic rent. The amount of the tax could, for example, be increased by 1 percent a year over a long period of time until the economic rent would be virtually all absorbed except for the collection fee. This would reduce the pain but would lead to the same ultimate result. One thing to be said in favor of this is that, at whatever point the public felt that society's share of economic rent was big enough, the land-tax rate could be frozen. Conversely, if the results proved beneficial, the public could even speed up the process if support developed.

(3) A still more moderate approach is to couple the gradual increase of taxation on land values with the gradual and simultaneous decrease of taxation on buildings (as in the Pittsburgh Plan). The mass of homeowners, businessmen, industrialists, and developers would stand to gain at least as much, if not more, by the reduction of taxes on their building improvements as they would stand to lose from the increase of taxes on land values. This should help to satisfy those who are looking for tax reforms that will be not only just but palatable as well. We do not wish to give the impression that somehow everybody will benefit and nobody will be hurt. Certainly those who wittingly or unwittingly are currently receiving most of their income not from production but from the growth of land prices would feel the brunt of this change. But if the change is slow enough for those people to turn their efforts from landholding as such to production, America would be spared the growth and dominance of a landholding class which has been so onerous in other societies.

(4) Another approach that has most appeal and which we favor is to recognize existing land values as private property which is not to be substantially impaired, but to take for society a large share of the future increase in these values. Thus, if the percentages to be so taken had

been fixed in 1956 at two-fifths, this would have produced around \$60 billion of revenue during the following decade. We recognize that this would not amount to a full \$100 billion since the imposition of such a tax would in itself slow down the upward trend of land values. If this had been properly expended, these sums could have helped to head off many of the troubles and class cleavages which we have suffered in our cities. If put into effect in the years immediately ahead, it could help to furnish the funds which will be needed.<sup>19</sup>

This taxation of future increments has been objected to on two grounds:

(a) Since the existing values of land which are to be recognized not only include the capitalization of existing income but also that of expected future income, society would concede too much. For it would validate not only the present but expectations of the future as well.

This is true and yet we believe it is necessary. Present values always reflect the future as well as current conditions. But it is a fact that land values do increase and their increase is based on heightened future expectations as well as greater current income. It is this increase in expectations which would be taxable at a higher rate.

It should furthermore not be forgotten that land would still be taxable under the general property tax at market value so that present expectations while recognized would still be taxable. Only this surtax would not be applicable to them. It is this added surtax which would be levied upon transfer.

(b) The second objection is that to confine the added tax to the time of transfer would lead to evasion by the owners refusing to sell and then continuing the ownership in the family after death. In technical terms, this, it is charged, would "lock in" investments in real estate and in the process would make the added tax on the increment ineffective.

This is a powerful objection. But it is not insuperable. It could be met by providing that the added increment in land value at death over the original value upon purchase or acquisition would be taxable. One generation might therefore escape but the next generation could not. In the case of corporate or partnership ownership of land there could be a reassessment every 10 or 20 years. The same method could be used. This is probably the best solution in the case of family trusts. It would differ not only from the present capital

<sup>19</sup> The British have taken steps in this direction in the past two decades to recapture what they call "betterment," the increases of land prices. Unnecessary legislative errors might be avoided by learning from that experience.



gains tax which exempts all such transfers by inheritance but would be an added surtax should that inequity be corrected.

In any event, we are convinced that these technical problems can be solved. We welcome the proposal of the Commission that the Treasury be asked to try to work out the details and we regard this as a distinct forward step.

But Government civil servants rarely initiate reforms. They can furnish valuable details but they seldom arouse public sentiment. That is the purpose of our appeal. We ask only that the men and women who make up society should be allowed to share in the increases in value which their presence and productivity have created. Unless there is such a public awareness and commitment, we shall repeat the history of the past and permit those who sit tight and hold on to a scarce factor of production to reap a large part

of the product created by others. We are becoming properly aware of the need for land reform in the countrysides of Asia and Latin America. There is an even greater need for land reform in the cities and suburbs all over the world—our own country included. This is not to be obtained by a subdivision of the land, which is possible in farming, but not in crowded cities and suburbs, but rather by society asserting the right to the differential rents and values which the forces of fertility and productivity create.

So we wish to raise our voices, feeble as they may be, to speak to the intelligence and conscience of mankind.

PAUL H. DOUGLAS.  
COLEMAN WOODBURY.  
JEH JOHNSON.  
EZRA EHRENKRANTZ.

## CHAPTER 7

# Federal Income Taxation and Urban Housing

Taxes on individual and corporation income, which provide the bulk of the Federal Government's tax revenue (83 percent in 1967), have a tremendous impact upon both the demand for housing and its supply, character, and condition. These taxes materially affect—

Consumers' capacity to own or rent housing, and their choice between these alternatives;

Investors' capacity and willingness to provide funds for housing construction and rehabilitation;

Builders' and developers' choices among alternative types of residential development;

Property owners' practices in buying, holding, maintaining, and selling residential property.

This Commission, with the statutory assignment to study "tax policies with respect to their effect on land and property cost and on incentives to build housing and make improvements in existing structures," has had a major interest in the housing impact of Federal income taxes. In accord with our further mandate from the President, the Commission's attention has focused particularly upon urban housing, and even more especially upon housing for families with low or moderate incomes.

In view of the "striking power" of Federal income taxes, it is not surprising that many of those concerned with unmet urban housing needs would seek to place primary reliance upon tax-incentive devices in order to meet such needs. We share both their concern and their expressed interest in making the utmost possible use of "the private sector" to expand and improve the urban housing supply and to bring adequate housing within the reach of all Americans. As more fully explained below, however, we are convinced:

(1) That special tax preferences should not be relied upon as the sole or even the primary instrument to deal with urban housing problems;

(2) That, however, some changes in Federal income tax laws and regulations should be made as soon as possible; and

(3) That there should be vigorous official

exploration of certain other potentially significant changes that might improve the tax climate for urban housing.

The Commission's consideration of these matters has benefited from an intensive scholarly study, "The Federal Income Tax in Relation to Housing," which was carried out for us by a recognized authority in the field of Federal taxation, Dr. Richard E. Slitor, professor of economics of the University of Massachusetts. The following discussion draws heavily upon that study, previously published as Commission Research Report No. 5. However, no attempt will be made here to examine housing-related aspects of various income tax provisions in details.

### INCOME TAXATION IN RELATION TO HOUSING CONSUMPTION

All taxes—not just the individual income tax—tend to reduce the public's effective demand for housing and other goods or services, as compared with what it would be if there were no need to apply some of the Nation's productive effort to governmental requirements. However, many taxes do this only indirectly; for example, to the extent that sales taxes are shifted forward in the form of higher prices, they reduce the buying power of consumers' income, rather than cutting it directly. As by far the largest direct tax in the American revenue system, the Federal individual income tax has a particularly strong and visible impact upon the effective demand for housing. Because of its provision for exemptions and its graduated-rate structure, this tax operates, "progressively"—i.e., imposing little or no burden at the low end of the income scale and taking larger proportions as it applies to larger incomes. In this respect, it differs from the rest of the Federal-State-local tax system which, altogether, operates "regressively."<sup>1</sup>

Poor families typically spend a considerably higher-than-average proportion of their income for housing, and the affluent a less-than-average proportion for this purpose. The individual income tax, in hitting harder at the rich than at the poor, cuts the total effective demand for

<sup>1</sup> See Table 15, Chapter 8.



housing much less than would a comparably productive but less progressive or even regressive "tax package," as typified by the remainder of the American revenue system. Since housing is, at least over a broad range of family incomes, a form of consumption that is especially desirable from a social standpoint, this is a very strong "plus" for the Federal individual income tax as compared with alternative tax forms.

But the individual income tax affects housing consumption in more direct ways, especially in providing different treatment for renters and homeowners. It gives distinct advantages to the housing consumer who chooses (and is able) to own rather than rent. The principal income tax advantage of the owner is that the rental value of his home is not legally recognized as part of his gross income (although he is allowed to deduct from his tax base any property tax paid on the property and any interest paid on mortgage debt, as if these were costs associated with his acquisition of income). As one observer has put it:

A person who resides in his own house or apartment obtains an income in the form of consumer services. \* \* \* A homeowner is an investor who takes his return in the form of services. If he wishes to do so, he can convert his imputed return to a cash return by moving and letting his house.<sup>2</sup>

The discrimination can perhaps best be seen by noting the different tax treatment with these alternative courses of action: the investor-renter must count as part of his gross income the interest he receives on his non-house investments, so that the amount he has left to pay rent is reduced by the tax due upon that interest, but the owner's benefit in the form of gross rental value does not go through the taxation "wringer."<sup>3</sup>

<sup>2</sup> Richard Goode, *The Individual Income Tax* (Washington, D.C., The Brookings Institution, 1965), pp. 120-21.

<sup>3</sup> The discrimination does not directly depend upon whether the owned home is mortgaged or debt free (although the resulting amounts may be affected). For example, note three taxpayers differing in home tenancy but each with \$25,000 "invested" in various ways, and each identical in other income status, as follows:

	Renter	Owner A (100-percent equity)	Owner B (60-percent equity)
Total Investment.....	\$25,000	\$25,000	\$25,000
In own home.....		25,000	15,000
Other investments.....	25,000		10,000
Investment return at 7 percent.....	1,750		700
Earned Income minus personal exemptions and miscellaneous deductions.....	10,000	10,000	10,000
Plus: investment income.....	1,750		700
Minus: house-related deduc- tions:			
Property tax (2 percent on \$25,000).....		500	500
Mortgage interest (6 per- cent on \$10,000).....			600
Taxable income.....	11,500	9,500	9,600

These provisions, according to a recent careful study, provide Federal income tax savings to the "typical" taxpaying homeowner (at 1965 rates) that offset about 15 percent of his annual housing costs, rising to a considerably larger proportion at high incomes (e.g., nearly one-third at the \$50,000-income level).<sup>4</sup>

Another advantage to the homeowner is the availability of special tax treatment upon the sale of his home. If within a year after selling his principal residence he buys another costing at least as much, there is no current tax on any gain he may have realized. Even otherwise, any realized gain is taxable at only half the rate applied to "ordinary" income, with a 25 percent ceiling; and, as in the case of other asset holdings, no income tax applies to any increase in the value of the homeowner's property from its acquisition to his death. Accordingly, only a very minor proportion of all increases in the value of owner-occupied homes ever enters into the Federal income tax base, and the gains that do so are taxed at preferential rates.<sup>5</sup>

These tax advantages have undoubtedly contributed—along with other important factors, including the general rise in real income—to the spread of homeownership during recent decades. In 1945, only about half of all nonfarm housing units were owner-occupied, but by 1960 the proportion had risen to 61 percent and it is undoubtedly still higher today.

The homeowner-favoring features of the individual income tax result in some significant biases:

They reduce the progressiveness of the tax, both because they especially benefit households that have enough income (and initial capital) to become homeowners, and because the resulting cut in tax base is "worth more" at the marginal rates paid by higher-income taxpayers.

They tend to discriminate against families that—even aside from economic capacity—must rent their housing because of job mobility.

They benefit a smaller fraction of large-city residents (many of them apartment dwellers) than the population elsewhere.

In the light of such facts, it has sometimes been proposed that the tax preferences available to homeowners be curtailed (for example, by requiring the homeowner to count the gross rental value of his housing as reportable in-

<sup>4</sup> Richard Goode, *op. cit.*, p. 122.

<sup>5</sup> Specially generous provisions apply to homeowners aged 65 or over, and to homeownership members of the Armed Services. Homeowner benefits are not limited to owners of single family structures but are available also to owners of "condominium" property and to taxpaying tenant-shareholders in cooperative apartments. For more detailed information, see Chapter 2 of Richard E. Slioto, *The Federal Income Tax in Relation to Housing* (cited above), National Commission on Urban Problems, Research Report No. 5, 1968.

come), or that they be offset by giving renters some equivalent kind of tax-base deduction. It would seem most unrealistic, however, to expect the former type of change, and an offsetting preference for those who rent—assuming that some workable formula might be devised—would add further to the many loopholes that already make income tax rates considerably higher than they would otherwise need to be. Moreover, any such “renters’ benefit” arrangement would obviously provide little or no saving to families in the lowest income groups—those so poor they incur no income tax liability and those somewhat better off who pay only at the minimum marginal rate.

It should also be emphasized that the ownership-favoring features of the Federal income tax tend to encourage a form of housing occupancy which has important social advantages. As expressed in Dr. Slitor’s study for this Commission:

Homeownership encourages social stability and financial responsibility.

It gives the homeowner a financial stake in society with a built-in inflation hedge.

It encourages better maintenance \* \* \*.

It helps eliminate the “alienated tenant” psychology.

It helps reduce the cost of housing, which necessarily includes in the case of rented quarters a substantial rate of return on risk capital \* \* \* the homeowner can in effect earn this return on his own commitment rather than having to pay it to a landlord investor.\*

Dr. Slitor concludes:

\* \* \* The Federal income tax benefits for homeownership [should] be retained. Many of the criticisms of the tax treatment of homeowners as compared with tenants \* \* \* are in reality triggered by the “vertical tax differentiation” (as between higher and lower incomes) which results from excessive benefits for wealthy homeowners and the inability of lower income taxpayers to secure the benefits.

Retention of the basic income tax encouragement to homeownership could be reconciled with appropriate maximum limitations where the present benefits are so large as to go beyond their ordinarily understood objectives \* \* \* [for example, by] dollar limits on allowable deductions for residential property tax and home mortgage interest payments. However, such an approach would face some important problems \* \* \*. While such restrictions have an appeal on equity grounds, it may be preferable to leave the delicate task of ironing out excesses or misapplications of the homeowner deductions to comprehensive tax reform \* \* \* (such as) the minimum-maximum tax approach discussed in recent years.<sup>6</sup>

It is our considered judgment that, while the provisions of the individual income tax which favor homeownership are not ideal in all respects, their net effect is clearly desirable. These

provisions make little or no contribution to the housing needs of relatively poor families. But the best way to deal with this situation is not by changes in the income tax law but, instead, through other efforts to bring homeownership within reach of a larger proportion of the population.

#### INCOME TAXATION AND INVESTMENT IN RENTAL HOUSING

Tens of millions of new housing units will have to be provided within the next two decades, because of the growth of the Nation’s population (now adding a million new households a year), its shifting location (toward metropolitan areas and to the West), and generally rising standards of living, which make increasingly evident the inadequacy of much of the existing stock of housing.

The bulk of this additional housing will be private housing, even if—as we urge elsewhere in this report—there is an enlargement of governmental efforts to meet the housing needs of poor families. Furthermore, even with further growth of homeownership, a large proportion of all urban housing will still have to be supplied on a rental basis. It is important, then, to consider how the Federal income tax system affects the attractiveness of investment in rental housing, and how it may influence the production, ownership, and upkeep of such housing.

The starting point is to note the rate pattern of Federal income taxation. Ordinary taxable income of individuals (i.e., excluding tax-exempt income and above allowable personal exemptions and authorized deductions) is subject to tax at graduated rates—at 1967 levels, starting at 14 percent and rising to a maximum marginal rate of 70 percent. Corporations are taxed at a uniform rate on their ordinary net income above a low minimum amount—at 1967 levels, 48 percent except for the first \$25,000, which is taxable at 22 percent. In both instances, special treatment is given to income from “realized capital gains” from assets held more than 6 months. Such gains are taxable at only half the rates for ordinary income, up to a top rate of 25 percent.

The capital gains features of the law are especially important for the real estate investor. The owner of rental residential property can obtain “income” in two forms—(1) as any excess of rental receipts over his expenses, and (2) as any increase in the market value of the property. On the latter form of income there is no tax liability until a capital gain is “realized” by disposition of the property, and the tax on any such gain is then computed at a lower rate (never more than half) than that on the

<sup>6</sup> *Ibid.*, p. 109.

<sup>7</sup> *Ibid.*, pp. 109–10. The “minimum-maximum tax approach” referred to would seek to limit interpersonal differentials in effective Federal income tax rates that arise from excessive deductions or exempt forms of income of various types. This approach was described in an address by Stanley S. Surrey, Assistant Secretary of the Treasury, before the Boston Economic Club, May 15, 1968, as reported in a Treasury Department news release of that date.



taxpayer's ordinary income. Furthermore, in computing his current property expense, the investor is permitted to deduct for depreciation an amount that is likely to be considerably more than the actual reduction in property value it is theoretically intended to measure.

The owner thus has considerable incentive and opportunity to concentrate his overall return from the investment, for tax reporting purposes, into the form of capital gains, which are taxable later and at considerably lower rates. Furthermore, if he is able to show for tax purposes a current operating loss, this can be used to offset his taxable income from other sources. The benefits the property owner can obtain from such an effective shifting of ordinary income into capital gains form, for tax reporting purposes, are typically enlarged by another factor—"leverage." His equity in the property is often only a minor fraction of the entire building value against which depreciation is being taken as a deductible expense. As more fully described in Dr. Slitor's study:

A combination of key factors \* \* \* results in important tax savings and related investment gains in rental real estate. These advantages arise from favorable tax depreciation, and the use of relatively thin equity and heavy mortgaging, with reduced or deferred taxation of gains on the disposition of the investment.

The major tax features favoring the real estate investor are:

Accelerated depreciation formulas: an investment in real estate can be recovered tax free by depreciation deductions which in the case of new construction can be taken at a rate which recovers two-thirds to three-fourths of the depreciable cost in the first half of the useful life of the building and more than 40 percent of the cost in the first quarter of the useful life.

Ability to depreciate the entire building cost, including the part financed by mortgage: since depreciation deductions are computed on the whole building cost although the investor's equity interest is a modest fraction of the total investment, the tax-free capital recovery may be further enhanced relative to the owner's equity investment \* \* \*.

Gain and loss treatment: When rental real estate is sold at a loss, the loss may be fully deductible as an ordinary loss from ordinary income; when sold at a gain, the gain may qualify for the favorable capital gain treatment.

Limited recapture rules: unlike transactions in machinery and equipment, gain on which is taxable as ordinary income to the extent of depreciation previously taken, real estate sales are subject to very limited recapture, so that all gains, regardless of prior depreciation taken, are capital after a 10-year holding period.

Deferment of gain: tax on the gain arising from sale or exchange of real estate may be postponed by various forms of installment or deferred payment sale \* \* \*.

Repair and maintenance: the owner of real estate may sometimes build up the value of his property by judicious repair and maintenance expenditures which qualify as currently deductible

expense although they more than compensate for physical deterioration and obsolescence. (On the other hand, outlays which would hardly be reflected in the value of some slum properties may be treated as nondeductible capital expenditure.)<sup>8</sup>

The importance and complexity of these features of the tax system are attested by the abundance of popular "get-rich-quick" publications that trace means by which real estate investors can seek shelter from the winds of Federal income taxation, as well as by the attention given to real estate investment matters in numerous more sophisticated tax guides and services. The "loophole" flavor suggested by some such sources may make it tempting to urge drastic tightening of existing provisions and rules. From the standpoint of equity and adequate governmental financing, this is undoubtedly one portion of the Federal tax system—along with others—that merits critical review and significant adjustment. But our special concern here is with the effect of present arrangements upon incentives for investment in housing, and it seems clear (1) that existing tax provisions have been "institutionalized" into a complex set of economic relationships that involve a large volume of investment as well as the provision of rental housing for about one-third of all American families, and (2) that any "loophole-closing" efforts, if applied only or more strenuously to this than to other competitive investment fields, would probably curtail the flow of resources and managerial efforts into this area. Concern for tax equity and productivity, then, must be carefully tempered in the light of these considerations.

In one way, real estate investment has some disadvantage from the standpoint of Federal income taxation, as compared with investment in other forms of income-producing property. This involves the "investment credit" device that has been in effect since 1962, and which is substantially limited to equipment. By this device, business firms can deduct from their tax liability (within certain limits) 7 percent of amounts they invest in facilities having a service life of at least 8 years.<sup>9</sup> For assets with a shorter life, specified fractions of the full credit are allowed. With minor exceptions, these benefits do not extend to investments in land and buildings, which make up nearly all the value of residential property.

Even though largely excluded from the "investment credit" system, housing investment clearly benefits by important tax-sheltering provisions. It should be noted, however, that these

<sup>8</sup> *Ibid.*, pp. 12-13.

<sup>9</sup> Tax credits can materially reduce the effective rate of corporation income tax, as illustrated in Joseph A. Pechman, *Federal Tax Policy* (Washington, D.C., The Brookings Institution, 1966), p. 121.

are not limited to rental housing, but apply similarly to other forms of income-producing real estate—office buildings, stores, shopping centers, and the like. The Nation has an obvious stake in adequate investment in commercial as well as residential plant. However, there is a *particular* public and social concern with housing—an interest expressed by the Housing Act of 1949 and by many pronouncements and laws, including the act authorizing this Commission. Accordingly, it is reasonable to ask whether the income tax system should include some specific preference for housing investment, as compared with that in other real estate. That question will be considered again in the final section of this chapter.

Another feature of the tax benefits available to real estate investment should be emphasized: they involve only minor differences of treatment for investment in new or rehabilitated structures as compared with that in unchanged older structures. (In contrast, the investment credit arrangement designed to encourage other forms of productive investment apply only to business expenditures for new or additional equipment.) In the field of real estate, the only distinction is that the owner of a new structure has the option, for tax reporting purposes, of using depreciation formulas that write off cost somewhat more rapidly. But since a shorter remaining life expectancy is generally recognized for used structures, the actual rate of writeoff may be similar.<sup>10</sup>

#### INCOME TAXATION AND OWNERSHIP PRACTICES

Present income tax arrangements operate strongly to inhibit long-term ownership of income-producing real estate. Important tax advantages can in most instances be obtained by sale after a rather brief interval of holding—commonly 10 years or less—because the tax-saving depreciation allowances are highest in the first few years. As described in Dr. Slitor's study:

One of the most clearly established investment responses to the Federal income tax law is the careful and generally quick timing of the turnover of properties once the investor has skimmed off the cream of the depreciation deduction \* \* \*. In 1963, prior to the partial recapture legislation of the Revenue Act of 1964, a *Wall Street Journal* writer described it as follows:

<sup>10</sup> The "fastest" depreciation method authorized for investments in used properties is the "150-percent declining balance" formula, while investments in new properties may be depreciated according to the more rapid "200-percent declining balance" formula or the "sum-of-the-years digits" formula. In the first 10 years of holding for a property with a 40-year estimated life, the latter two would respectively provide about one-fourth and one-third more depreciation than the "150-percent declining balance" formula. However, the 150-percent method in combination with a 25-year-life "used" property provides the same depreciation deduction and after-tax rate of return as the 200-percent method with a 33-year life new property, and would be more favorable than the 200-percent method with a 40-year-life new property.

"At present a real estate company can buy or build a structure, quickly write off its cost against taxable income, and distribute the untaxed income to stockholders; the stockholders pay no tax because the distributions are considered a return of capital rather than dividends. The company can then sell the building to a new owner who can start the same process over again. The selling company would pay a capital gains tax on the difference between the building's depreciated value at the time of sale and the price it received."

\* \* \* The rapid turnover syndrome is not limited to luxury apartments or financial district office buildings. A recent description of slum property investment activities indicates that they follow different patterns \* \* \* [which] include (1) repeated rounds of ownership to restore depreciable basis, (2) preoccupation with the creation of quick capital gains through the conversion of older property for overcrowding, higher revenues and subsequent deterioration, and (3) rapid turnover due to concentration of depreciation allowances in the early years \* \* \*.

The essence of skilled tax management of real estate in the hands of high bracket, tax-conscious investors is apparently optimal timing of turnover. This calls for resale after depreciation attrition unduly exposes cash flow to tax, and after recapture has ceased to be a significant factor \* \* \*. While powerful nontax motives such as the prospect of future rapid appreciation in the property's value may counterbalance the tax motive, it seems evident that the present tax structure in its application to depreciable real estate contributes to frequent turnover and instability of tenure. The old-fashioned motives of careful stewardship, conservation, and rational long-range management of investment are apparently subordinated in the tax shelter operation which often characterizes multiple-unit rental housing development, luxury or slum.<sup>11</sup>

There is, of course, nothing immoral or socially undesirable in frequent turnover as such. Whether the tax features which now work in that direction should be seriously questioned from a housing supply standpoint (rather than on grounds of tax equity) depends upon whether property turnover has desirable side effects—in particular whether it results in poorer maintenance of rental residential property than would otherwise apply. Even the limited-period owner of a rental housing property may often find it economically advantageous to provide a high standards of maintenance. On the other hand, some observers have reported a high correlation between frequent turnover and poor maintenance practices, especially for "slum" housing.<sup>12</sup> It is difficult to see how frequent turnover would specifically *encourage* better maintenance. Thus the net effect—whether it applies to such rental housing or only to limited portions of it—is no doubt in a socially undesirable direction.

For rental housing in older city neighborhoods at least, the income tax system also contributes in another way to poor maintenance practices. Understandably, the laws and regu-

<sup>11</sup> Richard E. Slitor, *op. cit.*, pp. 36-7.

<sup>12</sup> For example, see Jerome Rothenberg, *Economic Evaluation of Urban Renewal* (Washington, D.C., The Brookings Institution, 1967), pp. 49-50.



lations differentiate between owners' expenditures for property repairs and for property improvements. Repair costs can be entirely deducted from gross property revenue as a current expense, while improvement expenditure can only be added to the cost base against which depreciation is computed. These distinctions, although generally reasonable, are likely to be unrealistic in the case of slum housing. What the tax law recognizes as "improvements" may actually represent long-overdue repairs, made necessary by past neglect and deterioration. Thus, as Dr. Slitor points out:

The existing tax barriers to rehabilitation expenditures reinforce the underlying economics of "mining" or "milking" of older low-income housing. The rehabilitation expenditures of the particular taxpayer often add little to the current earning power of the property and possibly little to its anticipated resale value. Yet in addition to failing to qualify for a current income tax deduction, rehabilitation outlays may: lengthen the estimated useful life of the property and thus reduce depreciation rates and increase exposure to Federal income tax; and result in a higher local assessment and thereby increase property tax costs \* \* \*.<sup>13</sup>

A closely related problem is the tendency of the income tax to operate less favorably for investment in remodelling or renovation of run-down properties than for investment in new housing. This is especially unfortunate because (1) renovation may often be more economic or socially desirable than new construction, especially to deal with housing needs in deteriorating city neighborhoods; and (2) financing and market conditions may be less favorable for the renovator. For example, heavy debt financing—with its potential tax benefits—is generally less available for fix-up costs. Yet the income tax is likely to add further disincentives to renovation. As Dr. Slitor points out:

Unless the administrators of the tax law make fine and sophisticated distinctions, expense elements in housing remodelling may be capitalized. The fact that slum housing rehabilitation is sometimes in part an accumulation of neglected past repairs or that it frequently fails to prolong life or to be reflected in immediate capital values despite bearing the superficial earmark of a capital improvement may well be ignored.

\* \* \* The tax effects are likely to be more onerous if the capitalized amount is added to the tax basis of the building to be depreciated at a composite rate based primarily on the building life \* \* \*. The administration of the tax laws may fail in practice to distinguish between the life of the building shell which may run to 40-60 years and the lives of interior (equipment and decoration) which would be 5-8 years or even less under the low-income urban conditions of use \* \* \*.

Wherever the tax law errs on the size of capitalizing expense or of unduly slowing the write-off of short lived improvements, the resulting retardation of capital recovery tends to raise the effective rate of taxation above the nominal rate. It restricts cash flow and

enhances risk by lengthening the capital pay-off period \* \* \*.

[In addition,] substantial improvement on an existing building may subject gain on sale to ordinary income [rather than capital gains] treatment, even though the old property had been held for more than the 10-year period normally required to eliminate recapture.<sup>14</sup>

#### CONCLUSIONS AND RECOMMENDATIONS

Elsewhere in this report, we have emphasized the pressing need for governmental programs and policies that will (1) encourage a large and relatively stable volume of overall housing construction and (2) greatly enlarge the volume of adequate housing available for families of moderate and low incomes. The second of these objectives can be met only if there is a considerable amount of public subsidy. The additional housing involved clearly cannot be financed entirely from rental or purchase payments within the reach of the households that need it. But the subsidy might take any of various forms. Conceivable alternatives include governmental provision of housing (either publicly owned or leased) at less than full cost; financial aid to households, to help them meet essential housing costs they could not otherwise afford; explicit subsidies to developers, builders, rental-property owners, or financial institutions, designed to enable and encourage them to provide housing that would not otherwise be economically feasible; or "indirect" subsidies through preferential tax treatment of income from investments in housing for low- or moderate-income families.

It is understandable why some people concerned with urban housing needs urge that primary reliance be placed upon the tax-incentives route. They argue that, as compared with alternative types of subsidies: (1) This approach should be more feasible to enact, since any public costs involved would be indirect (in the form of a revenue loss) rather than involving an increase in Federal expenditures; (2) once built into the Federal tax system, such subsidies would have far more chance of continuity than would subsidy programs subject to the usual process of specific statutory authorization and annual budgeting and appropriations; and (3) tax-incentive subsidies could operate with far less detailed governmental control than direct subsidies, since most of the decisions about the tax-preferred housing to be provided would be left to private investors and builders.

On the other hand, it seems clear that the indirect subsidy approach through tax preferences would be economically inefficient, since some—perhaps even a very large part—of the tax benefits would go for residential investment

<sup>13</sup> Richard Slitor, *op. cit.*, pp. 105-6.

<sup>14</sup> *Ibid.*, pp. 34-5.

that would have occurred anyway. This approach may also be socially wasteful in stimulating residential construction of types, or in locations, that rank low in priority from the standpoint of the urban housing needs intended especially to be served. If an effort were made to minimize these problems by limiting the prospective tax benefits to rather narrowly defined categories or locations, the program would confront many of the problems of detailed specification and "bureaucratic" control which the tax-incentive approach is alleged to avoid. The claim for "cost invisibility" and political appeal can also be questioned, in view of the growing awareness by the Congress (and particularly by some key members of its revenue and appropriations committees) that revenue-sacrificing tax concessions are similar in their budgetary and economic effect to Federal expenditures involving similar sums. Finally, with the Federal income tax system already far too riddled with preferential provisions that materially impair its equity and productivity, proposals for the introduction of sizable new "loopholes"—even for socially desirable purposes—surely deserve the most critical and cautious scrutiny.

The study made for this Commission by Dr. Slitor included an intensive analysis of various tax-incentive approaches to deal with urban housing needs. We accept and share his conclusion that governmental efforts to encourage the construction and rehabilitation of housing for low- and moderate-income families should rely *primarily* upon direct subsidy programs rather than upon special tax benefits. As Dr. Slitor observed:

\* \* \* On balance the case for the tax incentive route to aid slum housing is not persuasive in the present context:

Even if limited to specific forms of low-income housing, in designated problem areas, the budgetary commitment would be great:

The Nation could ill afford to relieve a program of this importance and magnitude from the customary budgetary scrutiny and review procedures;

\* \* \* There is increasing awareness of the essential equivalence of negative taxes and expenditures although they occupy opposite sides of the Budget;

Specific tax concessions for social purposes are thus increasingly identified as indirect use of public monies \* \* \*;

The newer argument that the tax credit is the simplest way of harnessing the creative energies of private business with minimum government interference does not hold up in the slum housing field because (a) specific standards and government cooperation through finance and guarantees would probably be essential in any event and (b) low-cost housing can be built by private industry under contract in the same kind of partnership with government that prevails in space exploration and missile production.

Because of the magnitude of the problem of rebuilding and rehabilitating the inner cities:

The size of the effort in any year will have to be tailored closely to economic and budgetary resources; and

The timing of housing expenditures will need to be watched closely and coordinated with economic conditions and resource availabilities to meet acceptable goals without excessive strain and inflationary pressure.

The use of tax credits or similar incentive devices is not suited to this kind of flexible adjustment to prevailing conditions.<sup>15</sup>

This is not to say, however, that no change should be made in Federal income tax provisions that particularly affect the housing supply. As the foregoing discussion has pointed out, the important tax benefits now available to the investor in real estate include the following questionable or undesirable features:

(1) Tax provisions make no distinction between investment in rental housing and in other income-producing real estate, despite the special public concern for housing.

(2) They provide little or no effective preference of tax treatment for investment that actually enlarges the stock of usable housing (through new construction or renovation), as compared with investment that merely involves ownership of existing structures.

(3) They stimulate relatively frequent changes in the ownership of rental housing, and thereby in at least some instances work against acceptable standards of maintenance of such housing.

(4) They tend to reinforce, rather than to offset, the unfortunate economic and social conditions that inhibit adequate maintenance and renovation of rental housing in deteriorating city neighborhoods.

(5) They include no preferential treatment for investment in low- and moderate-income housing, relative to other rental housing.

In his study for this Commission, Dr. Slitor outlined a set of tax law changes designed to deal with the first three of these problems. In brief, he proposed (1) to curtail the "tax shelter" advantages that now—through unrealistic depreciation allowances and limited recapture of "excessive" allowances—are available for real estate investment; and (2) to provide instead for tax advantages through investment credit allowances (as now apply to business purchases of equipment) for new residential construction and major rehabilitation.<sup>16</sup> We believe the objectives sought are important, and that these proposals have much to commend

<sup>15</sup> *Ibid.*, pp. 102-3.

<sup>16</sup> For further details, see Richard E. Slitor, *op. cit.*, Chapter 6.



them. However, in view of the complexity of this matter and the very large sums involved—both from the standpoint of investors and of the Treasury—we are not prepared either to explicitly endorse Dr. Slitor's plan or to offer some alternative plan that might accomplish similar objectives. The matter deserves further careful exploration as promptly as possible. Accordingly:

#### **Recommendation No. 1—U.S. Treasury study**

The Commission recommends that the President direct the Treasury Department to make an intensive analysis and submit explicit findings and recommendations concerning tax law changes best suited to provide materially more favorable treatment for investment in new residential construction (including major rehabilitation) than for other forms of real estate investment.

We also propose that prompt action be taken on another problem (item 4 above): the tendency of the tax laws to reinforce underlying conditions that now inhibit sound maintenance and rehabilitation of old rental housing, especially in deteriorating city neighborhoods. Nationwide in 1965, according to Census Bureau figures, expenditure for maintenance and repair of rental housing averaged only \$90 per housing unit, and only \$57 per unit was spent for improvements in such housing. Although owner-occupied one-family houses average much newer and no doubt receive less severe treatment, their repair and maintenance cost averaged nearly as much per unit (\$72), and expenditure for improvements averaged \$144 per owner-occupied house, or nearly three times that for rental housing units.<sup>17</sup> In the light of these and other figures, it seems likely that only a modest public investment—in the form of foregone taxes—could stimulate a sizable increase in repair and rehabilitation of old rental housing. Accordingly:

#### **Recommendation No. 2—Tax incentives for upkeep of older rental housing**

The Commission recommends that the Internal Revenue Code be amended to provide specific incentives for adequate maintenance and rehabilitation of rental residential property by allowing, within appropriate limits, for especially generous tax treatment of investor-owners' expenditures for these purposes with respect to structures of more than some specified age, such as 30 or 40 years.

A specific plan for such tax benefits was outlined in Dr. Slitor's study for this Commission, under which:

(a) Up to some specified annual percentage (perhaps equaling the [straight-line] depreciation rate) of the capital cost of such structures, a current expense deduction [would] be allowed for all expenditures on improvements and rehabilitation (as well as for repairs and maintenance, as presently allowed), with a carryover of unused allowances in excess of the limit in any year to subsequent years; and

(b) A portion—perhaps one-half—of the depreciation allowable on such property would be contingent upon the taxpayer's making matching expenditures for repair and improvements.

Dr. Slitor comments further:

In order to prevent unintended benefits for renovation of very expensive luxury apartments, it might be necessary to include dollar limits per dwelling unit upon expensible improvements \* \* \*.

The expensing of rehabilitation outlays plus the effect of contingent depreciation under the supplementary allowance plan would provide an incentive to economical, quick-result upgrading of existing housing. It would tend to halt the process of continuous housing deterioration \* \* \*. The suggested tax changes do minimal violence to realistic standards of income taxation and in some respects increase its realism of income measurement in the substandard housing areas.<sup>18</sup>

Our final recommendation relates to the fifth problem noted above with regard to present income tax provisions—that is, that they include no preferential treatment for investment in low- and moderate-income housing, relative to other rental housing.

Elsewhere in this report we have pointed out the need for early major expansion of the available supply of housing for low- and moderate-income families, and have proposed governmental efforts in that direction. As emphasized earlier in this chapter, such efforts should, we believe, rely primarily upon direct types of subsidies. Within that context, nevertheless, there is an important potential role for the income tax system. In other words, it can and should be used to reinforce those subsidy programs by which the Federal Government seeks to attract private capital for construction and rehabilitation of low- and moderate-income housing on a limited-profit basis. By limiting the available tax preference to projects that qualify under such programs, the revenue cost would be held within reasonable bounds. Moreover, the task of determining eligibility for preferential treatment would not be added to the other difficult duties of the Internal Revenue Service.

#### **Recommendation No. 3—Tax incentives for low- and moderate-income housing investment**

The Commission recommends prompt revision of the Federal income tax laws to provide increased incentives for investment in low- and moderate-income housing, relative

<sup>17</sup> *Ibid.*, p. 64.

<sup>18</sup> *Ibid.*, p. 106.

to other real estate investment, where such housing is governmentally subsidized and involves a legal limit upon the allowable return on investors' equity capital. Specifically, we propose that the Internal Revenue Code be amended to provide especially favorable

treatment (whether through preferential depreciation allowances or through investment credits) for investments made under governmentally aided limited-profit programs for the construction and rehabilitation of low- and moderate-income housing.



## CHAPTER 8

# Background Data on Urban Government Financing

This chapter is mainly a statistical supplement. It provides background figures that explain or supplement facts more briefly reviewed in earlier parts of this section, particularly chapter 3 on "The Crisis of Urban Government Finance."

### SCALE OF URBAN GOVERNMENT FINANCE

Chapter 3 includes the statement that "Urban government expenditure is now running at an annual rate of about \$370 per capita, or about one-tenth as much as the average per capita income of metropolitan area residents." This estimate of \$370 per capita refers to 1968. It was calculated by applying to the average reported for all SMSA's by the 1962 Census of Governments (\$267.05) the average annual percentage rise in per capita local government expenditure for the 38 largest SMSA's between 1962 and 1966 (as indicated by the Bureau of the Census report, *Local Government Finances in Selected Metropolitan Areas in 1965-66*), for the 6-year interval 1962 to 1968. The nationwide average of personal income was \$3,159 in 1967 (*Survey of Current Business*, August 1968). Projecting the percentage change between 1966 and 1967 to the following year, this would suggest a 1968 average of about \$3,350. If the average in metropolitan areas is 12 percent higher than the national average (as in 1965 and 1966), the SMSA per capita amount of 1968 personal income would be about \$3,750, or slightly more than 10 times the estimated \$370 per capita of local government expenditure in metropolitan areas.

Total financing requirements for local governments are larger than their total expenditures, since they must also regularly pay off some outstanding debt and add to employee-retirement reserves and (with a growing scale of operations), other fund holdings. For local governments in metropolitan areas, the 1968 total of revenue and long-term borrowing would thus sum well over \$400 per capita, as against the indicated approximately \$370 per capita of expenditures.

Chapter 3 includes a brief description of the proportions of urban government expenditure

devoted to various functions. Further information on this subject is provided by table 1. This table also specifically illustrates the fact, as summarized in chapter 3, that local government spending for most purposes averages considerably higher within metropolitan areas than elsewhere.

The fact that per capita expenditure for education averages about the same in and out of metropolitan areas is apparently the net result of such offsetting influences as: a lower proportion of the total population enrolled in public schools in metropolitan areas (20 percent in 1962) than elsewhere (23 percent); higher pay rates for school personnel in metropolitan areas; and relatively more pupil-transportation costs in rural areas. Obviously also, the level of public school spending in the metropolitan areas (especially in major central cities) is dampened by competition with the heavier fiscal demands that exist there for social services and primarily "urban" functions.

### SOURCES OF URBAN GOVERNMENT FINANCING

The summary discussion of this subject in chapter 3 is based in part upon the data presented in tables 2 and 3. Among other things, table 2 reflects the fact that State aid (as of 1966) supplied only about one-fourth of all local government revenue in major metropolitan areas, as against one-third for local governments elsewhere. This disparity, however, is one of proportions rather than dollar amounts—the per capita averages run slightly in the opposite direction—\$89 for the major SMSA's against \$80 for local governments elsewhere. In part, this reflects the fact that most State aid is for education, public welfare, and highways, with only minor portions earmarked for "municipal type" functions which add considerably to the financial requirements of metropolitan areas.

Most State and Federal aid is earmarked for particular purposes, and local benefited-user charges and assessments provide for much of the cost of certain functions but not for others. It is therefore worth asking: How are local governments' own "general" resources allocated among various functions? Table 3 provides esti-

mated data on this subject. It shows that, as of 1966, intergovernmental revenue provided for the bulk of local public welfare spending, and for a large proportion of local expenditure for education, highways, and housing. Also, benefit charges offset much local spending for water supply, nonhighway transportation, housing, and sewerage. Local "general" resources therefore supplied only about half of the totals for education and for health and hospitals. Nevertheless, education still outranks any other function: it accounted in 1966 for an estimated 38.3 percent of all resources supplied (other than through benefit charges) by local governments in the major SMSA's, or about 43.5 percent for local governments nationwide. The next-ranking purposes, in their demands upon local "general" resources, were as follows for the major SMSA's:

	<i>Percent</i>
Police protection and correction.....	11.6
Interest on general debt.....	6.6
General control and financial administration.....	6.3
Health and hospitals.....	5.9
Fire protection.....	5.6
Streets and highways.....	5.3
Parks and recreation.....	4.4

TABLE 1.—LOCAL GOVERNMENT EXPENDITURE IN METROPOLITAN AREAS, BY FUNCTION, 1962

	Percent of total		Percent difference in per capita, SMSA from non-SMSA
	With "over-head" costs prorated	With "over-head" costs separate	
Total <sup>1</sup> .....	100.0	100.0	+33
Education.....	43.1	38.5	+2
Social welfare.....	16.7	14.9	+80
Public welfare program.....	7.2	6.4	+65
Health and hospitals.....	5.7	5.1	+35
Housing and urban renewal.....	3.9	3.4	+440
Water supply and sanitation.....	11.5	10.3	+86
Water supply.....	5.6	5.0	+49
Sewerage.....	3.7	3.3	+112
Refuse collection and street cleaning.....	2.2	1.9	+227
Transportation.....	10.2	9.1	-3
Streets and highways.....	18.2	7.3	-19
Other (airports, terminals, parking).....	2.0	1.8	+336
Protective functions.....	9.9	8.9	+153
Police protection and correction.....	6.5	5.8	+146
Fire protection.....	3.5	3.1	+168
Miscellaneous specific functions.....	8.4	7.5	+75
Parks and recreation.....	2.9	2.5	+263
Libraries.....	.9	.8	+81
All other <sup>2</sup> .....	4.6	4.2	+55
"Overhead" costs.....		10.7	+69
Interest on general debt.....		3.5	+90
All other (including financial administration, general public buildings, employee retirement).....		7.2	+60

Note: Because of rounding, detail may not add to totals.

<sup>1</sup> Excluding expenditure amounts for types of enterprises (electric power, gas supply, and transit systems, and liquor stores) that are operated by only a minor fraction of urban local governments.

<sup>2</sup> Including natural resources, protective inspection and regulation, and miscellaneous commercial activities, as well as services not covered by functions shown above.

Source: U.S. Bureau of the Census, Local Government in Metropolitan Areas (1962 Census of Governments, vol. V), table 9.

TABLE 2.—LOCAL GOVERNMENT REVENUE IN THE UNITED STATES, WITHIN AND OUTSIDE MAJOR SMSA's, 1966

Item	All local governments	Within 39 largest SMSA's	Outside 39 largest SMSA's
Total amounts (in millions) <sup>1</sup> .....	\$56,125	\$27,893	\$28,232
Per capita.....	286.56	350.77	242.67
Percent distribution, by sources (total) <sup>1</sup> .....	100.0	100.0	100.0
From local government sources.....	68.3	72.1	64.7
Taxes.....	48.7	52.7	44.8
Property taxes.....	42.5	44.0	41.0
Nonproperty taxes.....	6.3	8.8	3.8
Benefited-user charges and assessments.....	15.0	14.4	15.5
Water supply revenue.....	3.8	3.7	3.9
All other.....	11.2	10.7	11.7
Miscellaneous local nontax revenue <sup>2</sup> .....	4.6	4.9	4.3
Intergovernmental revenue.....	31.7	27.9	35.3
From State governments <sup>3</sup> .....	29.2	25.3	33.0
From Federal Government (direct).....	2.5	2.6	2.3

Note: Because of rounding, detail may not add to totals.

<sup>1</sup> For consistency with table 1, the totals here exclude gross revenue of types of enterprises (electric power, gas supply and transit systems and liquor stores) that are operated by only a minor fraction of local governments.

<sup>2</sup> Includes revenue from sale of property, interest earnings, and miscellaneous other sources such as fines and forfeits, as well as employees' contributions to local employee retirement systems.

<sup>3</sup> Including State aid financed from Federal payments to States.

Source: U.S. Bureau of the Census, "Governmental Finances in 1965-66," and "Local Government Finances in Selected Metropolitan Areas in 1965-66."

On this adjusted basis, sewerage expenditure required on the average only 2.9 percent, and public welfare expenditure only 2.8 percent, of local governments own "general" resources in the major SMSA's, with numerous lower ranking functions altogether accounting for the remaining 10.3 percent. However, these proportions differ considerably among individual metropolitan areas, as more fully indicated under "Geographic Variations," below.

#### FINANCIAL TRENDS AND PROSPECTS

Chapter 3 refers to the striking growth that has occurred since World War II in the financial scale of local governments and of the states. Summary figures for the period 1946-66 appear in table 4, and comparisons for the interval 1957 to 1966 appear in table 5. More detailed figures regarding recent historical trends in tax revenue are provided in table 6.

The growth in State-local expenditure has been accompanied by a considerable increase in the number of persons employed by local and State governments, and by rising public pay rates. These trends are summarized in table 7 for selected years since 1953. The figures there illustrate the sizable role of education, which accounts for about one-half of all State-local employment, and for an even larger proportion (56 percent) at the local government level. There were 7.4 million persons (on a full-time equivalent basis) working for State and local



TABLE 3.—ESTIMATED REVENUE RELATIONSHIPS OF LOCAL GOVERNMENT EXPENDITURES FOR VARIOUS FUNCTIONS: 1966

	Percent of all local government expenditure, net of intergovernmental revenue and user charges		Percent contribution of various sources to financing for particular functions <sup>1</sup>		
	38 largest SMSA's (col. a) <sup>2</sup>	United States (col. b)	State and Federal aid (col. c)	Local benefited user charges (col. d)	Local "general" resources (col. e)
Total <sup>3</sup>	100.0	100.0	x x x	x x x	x x x
Education	38.3	43.5	43.5	6.4	50.1
Police protection and correction	11.6	9.0	3.4	-----	96.6
Interest on general debt	6.6	5.9	2.0	-----	98.0
General control and financial administration	6.3	6.4	2.8	-----	97.2
Health and hospitals	5.9	5.3	11.6	36.1	52.3
Fire protection	5.6	4.5	2.0	-----	98.0
Streets and highways	5.3	7.0	43.9	6.7	49.4
Parks and recreation	4.4	3.3	2.0	14.7	83.2
Sewerage	2.9	2.7	6.8	45.8	47.4
Public welfare	2.8	2.3	81.2	-----	18.8
Refuse collection and street cleaning	2.7	2.1	2.0	25.2	72.7
General public buildings	2.0	2.2	2.0	-----	98.0
Water supply	1.9	2.0	-----	77.9	22.1
Libraries	1.4	1.3	12.0	-----	88.0
Housing and urban renewal	.5	.4	50.1	42.3	7.6
Airports, terminals, parking	.2	.2	9.6	83.2	7.2
All other	1.5	1.8	( <sup>4</sup> )	( <sup>4</sup> )	( <sup>4</sup> )

Note: Because of rounding, detail may not add to totals.

<sup>1</sup> Calculated from U.S. Bureau of the Census, "Governmental Finances in 1965-66," and "State Government Finances in 1966." Aid amounts include "general support" payments by States, distributed functionally here according to the percentage distribution of all local government general expenditure. Benefited-user charges include water supply revenue as well as general revenue from current charges (by function) and from special assessments (prorated in relation to local capital outlay for highways, sewerage, and natural resources) and from sale of property (allocated half each to housing and to "all other and unallocable"). The portion shown for "local 'general' resources" reflects amounts of expenditure subject to financing from borrowing and balances as well as from current revenues.

<sup>2</sup> Based upon amounts of relevant expenditure which were estimated by multiplying the nationwide percentages shown in column (e) by total expenditure amounts for the respective functions appearing in the Census Bureau report, "Local Government Finances in Selected Metropolitan Areas in 1965-66." (For

some minor functions not detailed in that source, amounts shown for major SMSA's by the 1962 Census of Governments were expanded to an estimated 1966 basis for this purpose.)

<sup>3</sup> For consistency with table 1, data here exclude amounts relating to types of enterprises (electric, gas supply and transit systems, and liquor stores) that are operated by only a minor fraction of local governments.

<sup>4</sup> Nationwide, the proportion of all local government expenditure covered here that was from "local 'general' resources" averaged 54.9 percent (with State and Federal grants providing 31.9 percent and benefited-user charges 13.7 percent). Because of the differing mix of functions, the proportion from "local 'general' resources" in major SMSA's averaged slightly less, 52.1 percent of all covered expenditure.

<sup>5</sup> Because of limited detail for particular revenue components, the percentage relationships calculated for "All other" expenditure (although used in deriving summary totals) are too inexact for separate presentation.

governments in October 1966, or about 1 in 10 of all gainfully employed civilians in the Nation. State-local employment averaged 38 per 1,000 of the total population in 1966, as compared with 26 per thousand in 1953. The upward trend has been even more rapid recently than in earlier years. State-local employment rose 5.6 percent a year between 1962 and 1966, as compared with 4.2 percent annually from 1953 to 1962. The trends summarized in table 7 have been shared similarly by local governments and the States; the local share of all State-local employment (on a full-time equivalent basis) was 74.8 percent in 1966, or nearly the same as in 1953 (76.6 percent).

Numerous efforts have been made to project future levels and trends of State-local finances. Several studies of this kind deserve particular attention, especially because of their recency and comprehensiveness, and the effort and care that each involved.

One of these—known as Project '70—was sponsored by the Council of State Governments and carried out under the direction of Selma J. Mushkin, largely between 1964 and 1966. As suggested by its title, this study aimed at the development of projections for the year 1970, drawing upon actual data available for earlier

TABLE 4.—TRENDS IN ECONOMIC GROWTH AND GOVERNMENTAL FINANCES, 1946-1966

Item	Amounts (in billions)		Percent increase, 1946-66	Average annual percent increase, 1946-66
	1946	1966		
Gross national product	\$208.5	\$747.6	259	6.6
Personal income	178.7	586.8	228	6.1
State and local governments:				
Total revenue <sup>1</sup>	16.0	97.6	511	9.5
Total expenditure <sup>1</sup>	14.1	94.7	575	10.0
Total debt	15.9	107.1	573	10.0
Local governments only:				
Total revenue	9.6	59.3	520	9.6
Total expenditure	9.1	61.0	571	10.0
Total debt	13.6	77.5	471	9.1
Federal Government:				
Total revenue	46.4	141.1	204	5.7
Total expenditure	66.5	143.0	115	3.9
Total debt	269.4	319.9	19	.9

<sup>1</sup> Net of State-to-local and local-to-State payments; accordingly, subtraction of the local government revenue and expenditure amounts shown here from the related State-local totals would not provide correct measures of State government revenue and expenditure.

Sources: As to national product and income, U.S. Department of Commerce, Survey of Current Business, June 1968; as to governmental finances, U.S. Bureau of the Census, "Governmental Finances in 1965-66" and "Historical Statistics on Governmental Finances and Employment" (vol. 6, No. 4 of the 1962 Census of Governments). The product and income data are for calendar years; government finance amounts are for fiscal years.

years up to 1963 or 1964. Projections were assembled on a State-by-State basis, separately for some 100 expenditure components and about half that many revenue items, and the published findings included a series of studies on various

TABLE 5.—TRENDS IN ECONOMIC GROWTH AND GOVERNMENTAL FINANCES, 1957 TO 1966

Item	Amount, in billions		Percent increase, 1957 to 1966	Average annual percent increase, 1957 to 1966
	1957	1966		
Gross national product.....	441.1	747.6	69.5	6.0
Personal income.....	351.1	586.8	67.1	5.9
State and local governments:				
Total revenue.....	45.9	97.6	112.5	8.7
Revenue from "own" (excluding Federal aid).....	42.1	84.5	100.8	8.1
Revenue from Federal aid.....	3.8	13.1	241.3	10.2
Total expenditure.....	47.6	94.9	99.6	8.0
Total debt.....	53.0	107.1	100.8	8.1
Local governments only:				
Total revenue.....	29.0	59.3	104.2	8.3
Revenue from "own" sources (excluding intergovernmental).....	21.4	41.5	94.3	7.7
Total expenditure.....	31.3	61.0	96.4	7.8
Total debt.....	39.3	77.5	97.2	7.8
Federal Government:				
Total revenue.....	87.1	141.1	62.1	5.5
Total expenditure.....	81.8	143.0	74.9	6.4
Direct expenditure (excluding aid to State and local governments).....	77.9	129.9	66.8	5.8
Total debt.....	270.5	319.9	18.3	1.9

Source: Same as for table 4.

major subjects (property taxes, local school expenditures, etc.), as well as summary overall data.<sup>1</sup>

Another major recent projection study was made by the Tax Foundation, Inc., under the direction of Elsie M. Watters, drawing upon historical background data up to 1965, and offering estimated national totals for 1975. Although these projections, unlike those for "Project '70," were developed only on a nationwide rather than a State-by-State basis, they were similar in taking up separately the various functional components of State-local expenditure and various elements of State-local revenue. The findings, issued in late 1966, include a summary comparison for the year 1970 with the results reported by Project '70.<sup>2</sup>

Another recent effort at comprehensive projections for State-local revenue and expenditure was made by Prof. Dick Netzer of New York University, and reported in late 1965 to the Subcommittee on Fiscal Policy of the Congressional Joint Economic Committee.<sup>3</sup> This study, using background data for earlier years up to 1964, supplied nationwide projections for 1970 and 1975. The Netzer study was less detailed than the others mentioned above, but included alternative expenditure projections based on various assumptions, rather than only a single set of figures for particular functional categories. It also went beyond the other studies in examining the nature of state-local

TABLE 6.—TAX REVENUE, FISCAL YEARS 1946, 1957, AND 1966

[Dollar amounts in millions]			
Item	1946	1957	1966
<b>AMOUNTS</b>			
Total <sup>1</sup> .....	\$46,380	\$98,632	\$160,836
By type of government:			
Federal.....	36,286	69,815	104,095
State and local.....	10,094	28,817	56,741
State.....	4,937	14,531	29,380
Local.....	5,157	14,286	27,361
By type of tax:			
Individual income.....	16,579	37,374	60,206
Corporation income.....	12,280	22,151	32,111
Sales and gross receipts (including customs).....	9,950	20,594	33,726
Property.....	4,986	12,864	24,670
All other.....	2,586	5,650	10,123
<b>PERCENT DISTRIBUTION</b>			
Total.....	100.0	100.0	100.0
By type of government:			
Federal.....	78.2	70.8	64.7
State and local.....	21.8	29.2	35.3
By type of tax:			
Individual income.....	35.7	37.9	37.4
Corporation income.....	26.5	22.5	20.0
Sales and gross receipts (including customs).....	21.4	20.9	21.0
Property.....	10.8	13.0	15.3
All other.....	5.6	5.7	6.3
<b>PERCENT OF PERSONAL INCOME<sup>2</sup></b>			
Total.....	26.0	28.1	27.4
By type of government:			
Federal.....	20.3	19.9	17.7
State and local.....	5.6	8.2	9.7
By type of tax:			
Individual income.....	9.3	10.6	10.3
Corporation income.....	6.9	6.3	5.5
Sales and gross receipts (including customs).....	5.6	5.9	5.7
Property.....	2.8	3.7	4.2
All other.....	1.4	1.6	1.7

<sup>1</sup> Excludes social security payroll taxes on employers and employees, which are classed as revenue from insurance trust contributions in Census Bureau reports.

<sup>2</sup> Based on calendar year amounts of personal income, as shown in tables 4 and 5.

Note: Because of rounding, detail may not add to totals.

Source: Same as for table 4.

tax increases that are likely if a "revenue gap" actually develops.

Each of these studies was designed to supply "projections," rather than "forecasts." That is, each of them gave estimates based upon certain

<sup>1</sup> Selma J. Mushkin and Gabrielle C. Lupo, "Project '70: Projecting the State-Local Sector," *Review of Economics and Statistics*, May 1967, pp. 237-245; largely appearing also in *Revenue Sharing and Its Alternatives: What Future for Fiscal Federalism?*, Vol. III, *Federal, State, Local Fiscal Projections* (Washington: Subcommittee on Fiscal Policy of the Joint Economic Committee, July 1967), pp. 1229-1248.

<sup>2</sup> Tax Foundation, Inc., *Fiscal Outlook for State and Local Governments to 1975* (New York, 1966).

<sup>3</sup> Dick Netzer, "State-Local Finance in the Next Decade," *Revenue Sharing and Its Alternatives* . . . (as cited in footnote 1 above), pp. 1332-1366.



TABLE 7.—EMPLOYMENT AND PAYROLLS OF STATE AND LOCAL GOVERNMENTS, SELECTED YEARS 1953 TO 1966

	1953	1957	1962	1966	Average annual percent change	
					1953-62	1962-66
Employment (full-time equivalent in thousands).....	4,126	4,793	5,958	7,398	4.2	5.6
Education.....	1,737	2,093	2,730	3,678	5.2	7.7
Other functions.....	2,389	2,700	3,228	3,720	3.4	3.6
Monthly payrolls (in millions).....	\$1,220.5	\$1,614.5	\$2,619.3	\$3,808	8.9	9.8
Education.....	552.0	757.8	1,325.1	2,030	10.2	11.1
Other functions.....	668.5	856.7	1,294.2	1,778	7.6	8.3
Full-time equivalent employees per 10,000 population.....	259	281	321	378	2.4	4.2
Education.....	109	123	147	188	3.4	6.3
Other functions.....	150	158	174	190	1.7	2.2
Average monthly earnings of full-time employees:						
Education.....	\$317	\$361	\$492	\$558	5.0	3.2
Other functions.....	\$280	\$325	\$402	\$480	4.1	4.5

Sources: U.S. Bureau of the Census, "Public Employment in 1966" and "Historical Statistics on Governmental Finances and Employment" (vol. 6, No. 4 of the 1962 Census of Governments). 1957 data are for April, data for other years are for October.

stated assumptions about prospective trends in general economic activity, price levels, and other major factors. To the extent more recent actual figures have become available since these studies were made, they seem to reflect an even faster rise in State-local expenditure than was projected, but at least part of this difference can probably be traced to more inflation and economic growth (in unadjusted dollar terms) than had been assumed.

Each of these studies indicated the prospect that State and local government expenditure will continue to increase at a considerably faster pace than the growth rate for the economy as a whole, and than the resulting "automatic" rise in State-local revenue from taxes at unchanging rates. Thus, each of these studies projected for at least the next few years a continuance of the "revenue gap" conditions which in the past two decades have been handled mainly by State-local tax increases, larger Federal grants, and a considerable growth in State-local debt.

#### PROPERTY TAXATION IN LARGE CITIES

Chapter 3 refers to the variation that exists in many large cities in the level of assessment for single-family houses. This information is based upon Preliminary Report No. 5 of the 1967 Census of Governments, "Property Tax Rates in Selected Major Cities and Counties." That report includes various comparative figures for 122 of the 130 cities of 100,000 or more inhabitants, including data on assessment ratios indicated by measurable sales of single-family houses. The assessment ratio expresses, as a percentage, the relation of the property's gross valuation for tax purposes to its sales price. For each of the large cities, the census report shows

the median assessment ratio and the "1st quartile" and "3d quartile" ratios based on recent house sales. With all individual items ranked from low to high, the median one is midway, the 1st quartile is the point *below* which one-fourth of all items appear and the 3d quartile is the point *over* which one-fourth of all items appear.

From such figures, it is possible to measure the minimum proportion by which one-half of all items—that is, those below the 1st quartile plus those above the 3d quartile—differ from the midpoint or median assessment level. The formula is: 3d quartile minus 1st quartile, divided by the median, divided by 2. The calculation provides the distribution of the 122 cities indicated in table 8.

TABLE 8.—OIVERGENCE OF ASSESSMENT RATIOS FOR 1-FAMILY HOUSES IN 122 CITIES OF 100,000 OR MORE POPULATION, 1966

Minimum percentage difference from median assessment ratio for one-half of all measurable sales of 1-family houses	Number of cities	Percent of cities
Total.....	122	100
Less than 8.....	9	7
8 to 9.9.....	16	13
10 to 11.9.....	15	12
12 to 13.9.....	20	16
14 to 15.9.....	19	16
16 to 17.9.....	19	16
18 to 19.9.....	8	7
20 or more.....	16	13

Thus we see that in only one-fifth of all these cities (25 out of the 122) do half of all assessments of 1-family houses fall within 10 percent of the median assessment level for such properties.

Chapter 3 also refers to the common and growing tendency for the property tax base to average less, per capita, in central metropolitan cities than in their respective suburban

hinterlands. Preliminary report No. 4 of the 1967 Census of Governments entitled "Assessed Valuation for Property Taxation," provides some data bearing upon this subject. For 15 cities of 300,000-plus, it is possible from that source and a related final report of the 1962 Census of Governments (vol. 2, "Taxable Property Values"), to compare the per capita property tax base of the city—net assessed values, after deduction of partial exemptions—with that of the balance of the county in which the city is located. In 11 of these 15 instances, the city's relative tax base position apparently deteriorated in the 5-year interval between the two censuses. Such a comparison also shows that in the later year only two of the 15 central cities, as against five of them 5 years before, had a larger per capita tax base than the balance of the county.

For 110 of the Nation's total of 130 cities of 100,000 or more, the preliminary 1967 Census of Governments report cited above makes possible a comparison of each city's proportion of the countywide property tax base (as of 1966) with its proportion of total county population in 1960. Little difference appears in 10 instances, a higher city tax base proportion in 30 instances, and a lower tax base proportion in 70 cases. Some of the 30 larger base conditions undoubtedly result at least partly from extensive recent city annexation of territory, and some of the 70 cases of apparent city disadvantage presumably reflect rapid suburban growth of population and economic base since 1960, so that, if recent population figures were available the calculation would probably show fewer instances of relative city disadvantage on a per capita basis. In the absence of reliable recent population figures, then, these comparative figures give only an approximate picture of present tax-base relationships. The thrust of the data, however, indicated a relatively weak property tax base for the central city as compared to the remainder of the county in a clear majority of cases.

#### FISCAL DISPARITIES WITHIN METROPOLITAN AREAS

Chapter 3 quotes the various summary findings of the Advisory Commission on Intergovernmental Relations on fiscal differences within metropolitan areas. Particular reference is made to the relative fiscal disadvantages of most metropolitan central cities as compared with outlying portions of their respective metropolitan areas. Following are illustrative high-light facts drawn from the ACIR report (vol. 2 of "Fiscal Balance in the American Federal System"). Where reference is made to "major metropolitan areas," the data relate to 37 of the 38 SMSA's in the Nation that had a population

of 700,000 or more in 1960. (The other "largest" SMSA had to be omitted from the ACIR study because of data limitations.)

Of the 37 large central cities included in the ACIR study, six are in effect composite city-counties for which it is possible from recent data sources to compare the city's proportion of statewide population with its proportion of public assistance recipients. The relatively higher public assistance load for the city in every such instance is illustrated in table 9.

TABLE 9.—POPULATION AND PUBLIC ASSISTANCE PROPORTIONS FOR SELECTED MAJOR CITY-COUNTIES

City	City proportion of statewide totals of—		
	Population 1965	All public assistance recipients, June 1966	AFDC recipients only, June 1966
New York City.....	44.2	70.2	71.7
Philadelphia.....	17.8	29.6	32.8
Baltimore.....	26.8	66.4	71.2
Boston.....	13.6	32.0	38.4
San Francisco.....	3.9	4.9	4.6
St. Louis.....	15.5	25.5	37.1
Denver.....	25.1	34.5	43.2

The higher concentration of poor families within central cities compared with outlying parts of metropolitan areas is reflected by the data in table 10, based upon the 1960 Census of Population.

TABLE 10.—PROPORTIONS OF LOW- AND HIGH-INCOME FAMILIES IN METROPOLITAN AREAS, 1960

Item	All SMSA's		The 5 SMSA's of 3 million plus	
	Within central city	Outside central city	Within central city	Outside central city
Percent of families with 1959 income of:				
Less than \$3,000.....	17.6	12.5	15.4	8.9
\$10,000 or more.....	16.5	21.2	19.5	27.6
Ratio, families over \$10,000 per 100 families under \$3,000.....	93.5	169.4	126.7	311.5

A relative deterioration in the economic position of major central cities as compared with outlying metropolitan territory is illustrated by the following data for the 37 largest SMSA's covered in the ACIR study: (1) Between 1958 and 1968, retail sales in the central cities of these areas rose only 5 percent, while retail sales in their associated outside-central-city areas grew over 45 percent; in 13 of these 37 central cities, there was an actual decline in the dollar volume of retail sales despite the rise in price levels during this interval; (2) employment in manufacturing dropped 6 percent in these 37 major central cities between 1958 and 1963, but rose nearly 16 percent in the outlying parts of



their metropolitan areas. Similarly, the ACIR study cites a recent report by the Bureau of Labor Statistics stating that a high and growing proportion of all building permits for new industrial construction in metropolitan areas (averaging 62 percent for the period 1960-65) was for construction of this type outside the central cities.

In the major metropolitan areas, public school spending averages considerably less within than outside central cities, as indicated by the data in table 11.

TABLE 11.—AVERAGE CURRENT PUBLIC SCHOOL EXPENDITURE IN THE 37 LARGEST SMSA'S WITHIN AND OUTSIDE CENTRAL CITIES: 1964-65

Item	Within central city	Outside central city	Ratio central city/outside (percent)
Expenditure per capita.....	\$82	\$113	73
Expenditure per pupil.....	449	573	78

This is a relatively recent development. According to the ACIR study, earlier data for a generally similar (though not identical) set of major metropolitan areas showed per pupil current spending for schools slightly higher in the central cities than in balance-of-SMSA territory in the year 1957, and a central-city average 86 percent as high as the balance-of-SMSA amount in 1962, as compared with the 78-percent ratio indicated above for 1964-65.

In 1964-65, according to the ACIR study, personal income averaged slightly less per capita within than outside the central cities of major SMSA's, but local taxes were considerably more per capita. As a result, the tax-income proportion averaged about one-third higher within the central cities than in neighboring metropolitan territory outside the cities. The relationship for major SMSA's in 1964-65 is summarized in table 12.

TABLE 12.—PER CAPITA PERSONAL INCOME AND LOCAL TAXES IN THE 37 LARGEST SMSA'S, WITHIN AND OUTSIDE CENTRAL CITIES: 1964-65

Item	Within central city	Outside central city	Ratio central city/outside (percent)
Weighted per capita averages:			
Personal income.....	\$2,607.00	\$2,732.00	95.4
Local taxes.....	\$199.53	\$152.21	131.1
Unweighted per capita averages:			
Personal income.....	\$2,482.00	\$2,552.00	97.3
Local taxes.....	\$173.15	\$136.96	126.4
Local taxes as percent of personal income, based on:			
Weighted averages.....	7.63	5.55	137.5
Unweighted averages.....	7.00	5.36	130.6

The total amounts of State and Federal aid received by local governments in 1964-65 averaged about the same on a per capita basis within and outside the central cities of major SMSA's.

However, for one large component—aid for education, which until recently has been nearly entirely from State rather than Federal grants—the central cities have been severely disadvantaged. In 1962, intergovernmental revenue for education averaged only \$21 per capita for the central cities as against \$38 per capita in other portions of the major SMSA's. The Federal program for school aid has no doubt narrowed this gap to some degree in recent years.

Further evidence of fiscal disparities within metropolitan areas can be drawn from a small-scale mail survey which was recently conducted by the National Commission on Urban Problems, and was designed to measure the range in property tax rates within a number of metropolitan-area counties. Usable reports were received from 70 of the 77 counties canvassed; of these, 33 (out of 37 canvassed) include a major metropolitan central city, while the other 37 (out of 40 canvassed) are "outlying" counties of large metropolitan areas.<sup>4</sup> The within-county range of property tax rates was at least 2 to 1 in one-third of the reporting counties, and at least 1.5 to 1 in three-fourths of them. The highest range indicated was 6.6 to 1, and involved one of the counties with a metropolitan central city; among the "outlying" metropolitan counties, the highest range was considerably less, 2.6 to 1.

Even if unincorporated territory is excluded from the rate comparison, marked variation is found within municipally governed areas: at least 2 to 1 in 14 percent of the counties, and at least 1.5 to 1 in 56 percent of them. The highest intramunicipal range found was 4.9 to 1 in one of the "central city" counties.

Among the 33 reporting "central city" counties, the highest property tax rate appeared within the central city in 11 instances; in 18 cases, it appeared for some suburban municipal areas; and in four cases the highest rate was in part of the county's unincorporated suburban territory. Among the "outlying" metropolitan counties, the highest rate was also nearly always reported for some municipally governed area. Table 13 summarizes the ranges in general property tax rates found for these metropolitan counties.

<sup>4</sup>The Commission's survey of local property tax rates applied to those counties in SMSA's of 700,000-plus (and other counties of 250,000-plus) where there is a single collector for general property taxes (so that meaningful aggregates of rates in various parts of the county could be readily reported), except for 15 "city-counties" involving only a single taxing jurisdiction and therefore little or no geographic variation of rates. Excluded were the other 108 counties in major SMSA's (or of 250,000-plus population), where property tax collection is handled on a decentralized basis.

## GEOGRAPHIC VARIATIONS

There are numerous references elsewhere in this report to the marked differences that exist among various parts of the country in the scale and composition of urban government finance. Much background information on this score appears in the ACIR study cited above, and in various Census Bureau reports.<sup>5</sup>

A few major factors account for a large part of such variations. One is regional—the fact that per capita amounts of State-local revenue and expenditure typically average less in the South than in other parts of the Nation. But other economic measures typically also run well below national averages in that area. Accordingly, when State-local finances are expressed in relation to personal income, the Southern States are found generally to approach or in some instances to exceed national averages.

Another major factor involves the pattern of State-local relations for the performance and financing of particular functions. Services which in some States are handled entirely or largely by the State government itself are elsewhere delegated for local government performance, though often with a considerable measure of State and Federal aid in their financing. In the latter case, of course, the spending will show up in comparative data as part of “local government” expenditure, and any related grant amounts will be included as part of local inter-governmental revenue.

The most costly function involved in such variations is public welfare. In States where this is mainly a local function, it involves spending that may run up to \$70 or \$80 per capita annually—a considerable fraction of all local

government expenditure. And even though much of the cost may be covered by State and Federal grants, the balance is generally an important factor in the local financing burden. This particular variation in functional assignment patterns is a specially important “adjustment” to the average percentages summarized in table 3 of this chapter. That table shows public welfare as requiring, within major SMSA's in 1966, only 2.8 percent of all locally raised resources other than user-benefit charges. However, the proportion is typically much more than that in the areas where public assistance is locally administered.

Another variable involves the relative scale of State aid to local governments. Among the central-city counties of major SMSA's, the proportion of all local government revenue thus provided ranges widely—from less than 20 percent in about one-fourth of such areas to more than one-third of the total in several others. Arrangements for public welfare account for some of this variation, but differences also involve State grants for other purposes, such as public schools.

Finally, considerable variation is found even within the local-revenue part of local financing, especially in the degree of reliance upon property taxation. In some major urban areas there is enough use of other revenue sources—general sales taxes, earnings taxes, or user charges—to hold the property tax contribution well below the prevailing average level.

An effort has been made to summarize some of these variations for the “central city” counties of the 38 largest SMSA's, as shown in the annual Census Bureau report “Local Government Finances in Selected Metropolitan Areas in 1965-66.” Among these areas, per capita amounts of various revenue items ranged widely, as indicated by table 14.

<sup>5</sup> Annual Census Bureau finance reports include *Governmental Finances*, *State Government Finances*, *City Government Finances*, and *Local Government Finances in Selected Metropolitan Areas*. More detailed data (including figures on local finances by county and metropolitan area) are provided in various reports from the Census of Governments, conducted at 5-year intervals.

TABLE 13.—PERCENT DISTRIBUTION OF 70 SELECTED METROPOLITAN COUNTIES ACCORDING TO INTRA-COUNTY RANGES IN GENERAL PROPERTY TAX: 1968

Ratio of highest to lowest rate of general property tax	Within entire counties			Within municipally-governed parts of counties		
	All counties	"Central city" counties	"Outlying" SMSA counties	All counties	"Central city" counties	"Outlying" SMSA counties <sup>1</sup>
Total.....	100	100	100	100	100	100
1.01 to 1.24.....	6	3	8	14	12	14
1.25 to 1.49.....	17	12	22	30	21	35
1.50 to 1.74.....	20	28	14	29	34	22
1.75 to 1.99.....	23	12	32	14	9	16
2.00 to 2.49.....	19	18	19	10	18	3
2.50 to 3.49.....	11	18	5	2	3	-----
2.50 or more.....	4	9	-----	2	3	-----

<sup>1</sup> Omitting 4 counties (including 3 that have no municipalities) for which the intra-municipal range cannot be calculated.

Source: Mail survey; as to coverage, see text and footnote 4.



TABLE 14.—HIGH-TO-LOW RANGE OF SELECTED GOVERNMENTAL REVENUE ITEMS IN CENTRAL-CITY COUNTIES OF THE 33 LARGEST METROPOLITAN AREAS: 1966

	All major central-city counties	Major central-city counties outside the South
(a) Total local government general revenue.....	3.3 to 1.....	2.6 to 1.
(b) Total local tax revenue.....	4.3 to 1.....	2.2 to 1.
(c) Total State-local taxes.....	2.6 to 1.....	2.0 to 1.
(d) State-local property taxes only.....	4.9 to 1.....	3.0 to 1.

In each instance, as these figures show, the total range is narrowed if southern counties are omitted from the calculation. Also, as indicated by items (b) and (c), less inter-area variation appears when State taxes are taken into account (for this purpose, merely adding to the local tax figure shown in the cited census report the statewide per capita average for the State in which the particular major county is located), than when local tax revenue only is compared.

## TAX BURDENS BY INCOME CLASS

Chapter 5 refers to the fact that State and local taxes tend to be "regressive"—that is, to impose a much larger burden, in relation to income, upon poor households than upon the more prosperous, while the Federal tax system generally works in the other direction. Numerous

studies have supported this generalization.<sup>6</sup> Illustrative findings based upon one recent study of this kind are summarized for convenient reference in table 15. Any such effort demands a selection among various concepts of income and taxes, and the use of certain assumptions as to tax incidence. Because of differences of qualified opinions on such matters, the figures shown should not be regarded as necessarily the "best" or most precise estimates that might be developed. However, they resemble the results of other earlier studies in reflecting a considerable element of progression for Federal taxes (especially because of the importance of the individual income tax at this governmental level), and the marked regressiveness of State-local taxes, traceable in large part to the property tax.

The ACIR study mentioned above also includes tables that illustrate, by detailed income classes of taxpayers, the generally progressive nature of the Federal income tax and the strongly regressive character of "direct" State-local taxes, as well as social security contributions.

<sup>6</sup> References to various earlier studies that include estimates of tax burdens by income class appear at page 247 of Dick Netzer, *Economics of the Property Tax*, and in Research Bibliography No. 15 of Tax Foundation, Inc. (revised April 1966), entitled *Allocation of the Tax Burden and Expenditure Benefits by Income Class*. The Netzer volume also includes a detailed discussion of property tax incidence, and estimates of its allocation by income classes.

TABLE 15.—FEDERAL AND STATE-LOCAL TAXES IN RELATION TO FAMILY INCOME: 1965

Family income class <sup>1</sup>	All taxes (F-S-L)	Federal taxes			State-local taxes			State-local percent of total
		Total	Individual income	All other	Total	Property	All other	
Estimated percent of income								
Average, all income classes.....	25.7	16.1	8.3	7.8	9.6	3.8	5.8	37.4
\$15,000 and over.....	<sup>2</sup> 41.6	33.2	16.1	17.1	8.4	2.4	6.0	20.2
\$10,000 to \$14,999.....	26.3	17.8	10.0	7.8	8.5	3.3	5.2	32.3
\$7,500 to \$9,999.....	23.8	14.9	8.8	6.1	8.9	3.5	5.4	37.4
\$6,000 to \$7,499.....	23.5	14.0	77.7	6.3	9.5	3.8	5.7	40.4
\$5,000 to \$5,999.....	24.1	13.9	6.9	7.0	10.2	4.2	6.0	42.3
\$4,000 to \$4,999.....	23.6	13.2	6.4	6.8	10.4	4.2	6.2	44.1
\$3,000 to \$3,999.....	24.5	13.3	4.5	8.8	11.2	4.7	6.5	45.7
\$2,000 to \$2,999.....	21.9	10.6	3.1	7.5	11.3	5.2	6.1	51.6
Under \$2,000.....	23.4	9.8	1.9	7.9	13.6	6.9	6.7	58.1
Percent relationship to average								
Average, all income classes.....	100	100	100	100	100	100	100	100
\$15,000 and over.....	162	206	194	219	88	63	103	54
\$10,000 to \$14,999.....	102	111	120	100	89	87	90	86
\$7,500 to \$9,999.....	93	93	106	78	93	92	93	100
\$6,000 to \$7,499.....	91	87	93	81	99	100	98	108
\$5,000 to \$5,999.....	94	86	83	90	106	111	103	113
\$4,000 to \$4,999.....	92	82	77	87	108	111	107	118
\$3,000 to \$3,999.....	95	83	54	113	117	124	112	122
\$2,000 to \$2,999.....	85	66	37	96	118	137	105	138
Under \$2,000.....	91	61	23	101	142	182	116	155

<sup>1</sup> The income class ranges shown refer to money income after personal (mainly individual-income) taxes.

<sup>2</sup> Includes 5.9 percent of income for Federal and State estate, death, and gift taxes, with all receipts from such taxes being allocated to this income class.

Source: Based upon data shown in Tax Foundation, Inc., "Tax Burdens and Benefits of Government Expenditures by Income Class, 1961 and 1965" (New

York: Tax Foundation, Inc., 1967). That source includes definitions and a description of assumptions and methodology. "Taxes" here exclude social insurance contributions but include all other "tax and nontax receipts" of governments, as recorded in the national income and product accounts. The percentages shown relate such amounts to "net national product" as defined in those accounts, according to their respective estimated distributions by income classes.

# Part V. Reducing Housing Costs

## CHAPTER 1

### Housing Construction Costs

The price of meeting national housing goals, whether borne by the public or private sectors, is a function of two variables—the number of units to be constructed and the costs of building and operating that housing. We have, in the section on housing needs, explored the first of these variables. This section of the Commission's report is concerned with the second.

As a Commission charged with exploring how to meet the national housing goal—a decent home in a suitable living environment for all Americans—we must address ourselves to the matter of costs. By knowing the costs of housing, policymakers can arrive at judgments about who must be subsidized and how much housing can be produced for a given expenditure. By examining each component of the total cost of housing, they can more clearly understand the relative importance of each and the potential for future cost reductions.

Substantial difficulties exist in comparing the costs of housing over a period of time or housing of various types or in various locations. Average cost figures and average cost relationships tend to be misleading because variations are great and many cost-affecting factors are unpredictable. Labor disputes, bad weather, shipment delays and the like are common. Moreover, there are obvious difficulties in finding a typical dwelling unit on a typical site. Geographic factors may affect the cost of land, materials and other components. Differences in accounting systems can be substantial. Short-term swings in the mortgage market, establishing the price of a mortgage that will prevail over 20 years or more, can be large and erratic. Nevertheless, while it is important to bear these variations in mind, some general understanding of the level and proportion of cost components is essential to public decisionmaking.

#### THE COMPONENTS OF HOUSING COSTS

A few basic principles should be stated at the outset. *First*, whether housing is public or private, subsidized or unsubsidized, the basic components of costs are the same. The fact that the rent of a public housing tenant, for example,

does not include amortization of development costs does not mean that there have been no such costs. It means simply that the burden of such costs is borne by society. Similarly, where the Government subsidizes various costs of private housing—such as interest rates or property tax deductions—the costs do not disappear, but rather are shifted from the tenants (or homeowners) to the government.<sup>1</sup>

*Second*, homeownership and rental housing involve, for the most part, the same basic cost elements; apparent differences reflect the manner in which payments are made rather than differences in cost components. The tenant pays the costs of insurance, mortgage amortization, maintenance, and the rest through his monthly rental payments, while the homeowner pays them directly. The one major item of cost which the tenant bears but the homeowner does not is the charge for management services, including salaries of management personnel and return on the owner's investment. The homeowner, in effect, performs his own management functions and realizes as a return on his investment only imputed rent and perhaps appreciation in the value of the property.

The costs of housing—whether rental or ownership—can be broken down in a number of ways. They can be thought of in terms of the kind of economic resource involved (land, materials, investment capital, and labor) or the service for which the charge is made (construction, financing, insurance, etc.). One widely accepted method for considering costs is to distinguish operating and development costs. The former consist of charges for heat and utilities, maintenance and repairs, management services, taxes and other assessments, and insurance. Development costs are those involved in building and marketing the housing and include the costs

<sup>1</sup> There may, of course, be differences in the actual "level" of a particular cost component which vary with the public, private or subsidized nature of a particular project. Costs of management, for example, may differ because of differences between public and private pay scales. The cost of money (i.e., financing cost) will differ depending on whether the government borrows against its own credit, as in public housing and 221(d)(3) housing, or subsidizes borrowing from private sources charging market interest rates, as in the new 235 and 236 programs. Building specifications, sources of supply, procedures and the like may also differ in ways which affect costs.



of land, site improvement, construction, overhead, profit, marketing, interim and permanent financing.

Useful data on housing costs are surprisingly scarce. In part, this is attributable to the difficulties of comparing figures for different builders and different projects and to the fact that most builders produce only a small number of units each year. In addition, there is no central source which attempts to collect and disseminate detailed cost statistics.

The most comprehensive figures available are those of the Department of Housing and Urban Development. In particular the FHA, which was involved in 14 percent of private nonfarm housing starts in 1967, has for some time collected extensive data on its own programs. FHA data are especially useful for analyzing the costs of single-family houses, since cost series have been maintained on FHA 203<sup>2</sup> housing for most of the post-World War II period. Such series do not exist for multifamily programs, but

HUD made special efforts at the Commission's request to tabulate recent cost figures for the range of multifamily programs.

In its efforts to collect cost data, the Commission and its consultant on costs received valuable assistance from HUD, various local public agencies, especially in the District of Columbia and New York City, individual builders, real estate experts and organizations, including the *Engineering News-Record*, National Association of Real Estate Boards, and the National Association of Home Builders.

### *The single-family house*

(1) *Development Costs.*—In 1966, new FHA 203 single-family housing was developed at a median value per house of \$18,099, and an average sales price of \$17,731. Only 25 percent of all such houses were valued at less than \$15,000; 0.2 percent at less than \$9,000. On the average, slightly less than 20 percent of FHA value was attributable to land and site improvement costs, with the remaining 80 percent accounting for all other development costs. This 80 percent amounted to \$12.16 per square foot of living space. Table 16 presents details on costs of FHA 203 houses, 1948–66.

More detailed component cost data for five recent single-family home developments are shown in table 1. The projects designated Ohio and South were constructed by builders of about 30 single-family homes annually. California, Midwest, and Northeast are projects of large

TABLE 1.—DISTRIBUTION OF COSTS FOR SINGLE-FAMILY HOUSES IN SELECTED DEVELOPMENTS 1966–67

Item	Project				
	South	California	Midwest	Northeast	Ohio
<b>Components of selling price:</b>					
Area of house, square feet.....		1,678	1,263	1,263	1,000
Selling price, average.....	\$24,350	\$25,000	\$24,990	\$21,990	\$20,155
House construction cost.....	15,020	10,450	14,650	11,200	11,111
<b>Site costs:</b>					
Acquisition.....		6,000	1,999	2,067	2,298
Site improvement.....		2,000	2,449	2,837	1,068
Selling price less site costs.....	20,105	17,000	20,540	17,090	16,791
<b>Price and cost per square foot:</b>					
Selling price per square foot.....		\$14.90	\$19.75	\$17.31	\$20.16
House construction cost per square foot.....		6.24	11.60	8.86	11.11
Selling price less site costs per square foot.....		10.20	16.22	13.51	16.79
<b>Percent distribution of selling price:</b>					
All components.....	100	100	100	100	100
<b>Site costs:</b>					
Acquisition.....		24.0	8.0	9.4	11.4
Site improvement.....		8.0	9.8	12.9	5.3
Subtotal.....	17.43	32.0	17.8	22.3	16.7
Structure.....	61.7	41.8	58.6	51.0	55.1
Supervision.....		.7	7.9	7.2	1.2
Marketing.....	3.57	4.0	3.3	4.7	5.0
Financing.....	6.22	4.8	2.0	2.3	4.0
Mortgage points.....		6.0	3.4	2.9	5.0
General overhead.....	9.11	4.7	7.0	9.6	4.1
Profit.....	1.95	6.0			8.9
Subtotal.....	20.86	26.2	23.6	26.7	28.2

<sup>1</sup> Includes overhead.

<sup>2</sup> Includes preliminary costs, closing costs, contingency.

<sup>3</sup> Includes engineering, 1.2 percent; mortgage processing and title closing, 0.9 percent.

<sup>4</sup> Includes engineering, 1.5 percent; mortgage processing and title closing 1.1 percent.

Source: Data submitted to the Commission by the builders.

builders, each producing more than 500 houses annually.<sup>3</sup>

Significant variations appear in these five projects. Actual structure costs ranged from Far West's \$6.24 per square foot to Midwest's \$11.60 per square foot, and construction costs (selling price less site costs) from California's \$10.20 per square foot to Ohio's \$16.79 per square foot.<sup>4</sup> In percentages, structure costs ranged from 41.8 percent of California's selling price to 61.7 percent of South's. Site costs showed the widest variation, ranging from 16.7 percent to 32 percent.

Somewhat different proportions among development cost components are revealed by a survey of the National Association of Home Builders, the results of which appear in table 2.

TABLE 2.—SELECTED COMPONENTS OF COST AS A PERCENTAGE OF TOTAL DEVELOPMENT COST FOR SINGLE-FAMILY HOUSES, 1966

Items	Representative	Range
Site.....	15	10-19
Construction:		
Direct.....	66	61-74
Indirect.....	3	2-5
Subtotal.....	84	80-87
Financing.....	3	1-4
Marketing.....	4	2-5
Administrative and general.....	6	5-8
Net profit before taxes.....	3	2-6

Source: Based on an NAHB survey, using model accounting system, of approximately 40 builders in all parts of the Nation in 1966, each producing an average of 30 to 100 homes per year. Selling prices of homes ranged from \$10,000 to \$100,000.

The NAHB data show higher proportions of total development costs going into construction than are shown for the table 1 projects. Direct construction costs in table 2 range from 61 to 74 percent of total development cost as compared with 42 to 62 percent for the five projects in table 1. The absence of absolute dollar data for the NAHB survey makes it difficult to be sure of the reasons for this disparity.

In sum, it appears that the proportion of total development cost for single-family houses going into the structure itself can vary—from under 50 percent to as much as 75 percent—over a rather wide range, depending on local circumstances, the builder and other factors. The absolute dollar costs per square foot also show wide variations. These differences reflect geographical factors, such as local prices for materials and amenities; efficiencies achieved by particu-

lar builders; and variations in construction type, level of amenities, etc. They may also reflect differences in house size, since the costs of certain basic components—e.g., kitchen equipment—do not vary with increasing structure size. Thus the larger the house, the smaller the dollar amount per square foot for such items. The lowest per square foot structure cost figure reported in table 1, \$6.24, is for the largest house.

The remaining development costs—marketing, financing, profit, and overhead—vary within a range of 16 to 28 percent.

The home buyer normally pays for the development costs over time by means of a mortgage. Monthly payments are made to amortize the mortgage principal (development cost less down payment) and to cover interest on the unpaid balance.

(2) *Operating Costs.*—The homeowner directly pays the costs of maintaining his property and meeting current operating charges. Table 3 shows average operating expenses and their relationship to debt service and total monthly housing expense:

TABLE 3.—MONTHLY OWNERSHIP EXPENSE OF NEW FHA (203) HOUSES: 1966

Items	Average expense per month	Percent
Monthly expense for housing.....	\$159.74	100.0
Debt service, principal and interest on mortgage and FHA insurance premium.....	93.80	58.7
Hazard insurance.....	4.05	2.3
Taxes and assessments.....	21.25	13.3
Maintenance and repair.....	9.66	6.1
Heating and utilities.....	23.67	14.8
Miscellaneous.....	7.36	4.6

Source: FHA 203 Homes, Series Data Handbook, a Supplement to FHA Trends (203b), 1966, RR 251.

The builder of the California project in table 1 reports the detailed breakdown of development costs and certain operating costs on a \$25,000 home as shown in table 4.

TABLE 4.—MONTHLY OWNERSHIP EXPENSE AND INITIAL COSTS OF HOUSES IN A CALIFORNIA DEVELOPMENT

Items	Average expense per month
Monthly expense for housing.....	\$203.00
Debt service, principal and interest on \$23,000 mortgage (30 years at 6 percent).....	138.00
Hazard insurance.....	5.47
Taxes and assessments.....	50.00
FHA insurance premium.....	9.53

Source: Data submitted to the Commission by the builder.

If estimated charges for heat, utilities, maintenance and repair are added to the data shown in table 4, they would appear to be relatively consistent in percentage terms with the more detailed FHA figures for single-family houses.

The sum of monthly debt service and operating expenses is the total housing expense to the

<sup>3</sup> The builder of the California houses is Larwin Company, whose president, Lawrence Weinberg, testified at the Commission's public hearings. His complete testimony, including detailed cost data, is contained in Hearings, Vol. 2, beginning at p. 44. Several minor adjustments have been made in the organization of the data presented at the hearings to achieve comparability.

<sup>4</sup> For purposes of making use of their statistics, we have accepted the distinction between "construction" and "structure" costs (insofar as this discussion is concerned, without endorsing this accounting system) as follows: ordinary construction costs for the building includes labor, materials, supervision, general overhead and profit.



homeowners. As table 3 shows, the average total expense on new FHA 203 houses in 1966 was \$159.74. The range in the continental United States was from a low of \$129.17 in Kentucky to \$195.49 in California. The average FHA homeowner spent 27.7 percent of his net effective income<sup>5</sup> on his monthly housing expense.

Assuming a 90-percent, 25-year mortgage on an \$18,000 home (mortgage value equals \$16,200) at a rate of 7 percent, for example, monthly payments will be \$114.51. In 1966, the average debt service on FHA 203 houses was \$93.80 a month.

### *Multifamily housing*

Multifamily housing includes a variety of housing types. Under some definitions it contains every type of structure from two-family or semidetached units to high-rise apartments. In this discussion multifamily housing includes only structures containing three or more dwelling units. These consist of low-rise and high-rise buildings. Low-rise structures include row houses, garden apartments and other walkup buildings in which upper stories are accessible by stairs only. High-rise structures are buildings with elevators.

Because of this variety of housing types and the range of unit and room sizes in multifamily dwellings, average figures are even more suspect than those for single-family houses. Again, however, they are presented to provide a general idea of levels and relationships.

(1) *Development Costs.*—Table 5 presents figures for all HUD multifamily programs.

TABLE 5.—SELECTED COMPONENT COSTS OF HUD MULTIUNIT HOUSING: PROJECTS BEGUN IN 1966

	High	Median	Low
Development cost/unit.....	\$36,001	\$15,650	\$7,702
Site cost/unit.....	6,361	2,252	265
Size, square feet/unit.....	1,954	963	433
Structure cost/square feet.....	129.69	12.49	6.82
Turner Apartment Index, costs/square feet.....	21.37	16.67	12.80

<sup>1</sup> This figure is abnormally high. The figure for the next highest is \$21.16.

Sources: Department of Housing and Urban Development and Turner Construction Co. The Turner Index is based on unit prices for apartments built for private owners to rent on a commercial basis, which include luxury buildings.

The average of \$15,650 per unit for total development costs, with an average structure cost of \$12.49 per square foot, corresponds generally to figures of \$18,099 and \$12.16 for FHA 203 single-family housing. They are considerably below the Turner Apartment Index figures for private rental housing, which include luxury units.

Table 17 presents data on the total development costs and site and structure costs per

square foot of 196 FHA and 372 HAA multifamily units begun in 1966 (by program). Median development costs ranged from a low of \$11,385 for privately owned housing for the elderly to a high of \$23,064 for FHA 220 redevelopment housing. The basic FHA 207 program reported a median development cost of \$16,524.

Median site costs for multifamily housing under these programs are generally lower than for single-family houses, reflecting in part the ability to spread land and site improvement costs over a larger number of units. In 1966, median site costs per unit for FHA 207 housing were \$2,520. Average site costs were \$3,544 for FHA 203 single-family houses. Median site costs for all HUD multifamily programs accounted for 14.4 percent of total value. Site costs averaged just under 20 percent of value for FHA 203 single-family houses.

Structure costs per square foot for multifamily dwellings vary within a wide range above and below costs of single-family houses. Average square foot costs for FHA 207 units, at \$12.53, are slightly higher than comparable figures for FHA 203 single-family houses.

Perhaps the most important factor affecting the construction costs of multifamily housing is whether construction is high rise or low rise. High-rise construction normally requires heavier, more expensive basic construction materials and added mechanical equipment, such as elevators and incinerators, which raises costs. Moreover, building codes require such buildings to be of fireproof or semifireproof construction. Less expensive structural materials, such as wood, may only be used in fireproof structures where additional covering protection is provided.

Low-rise multifamily buildings, on the other hand, may use wood structural members. But, in contrast with the relative freedom from building code requirements enjoyed by single-family structures in matters of fire safety, low-rise multifamily dwellings are required to use additional materials to protect neighboring apartments or dwellings from spreading fire. For example, party walls of masonry or similar materials must be constructed between individual dwellings in row houses. Table 6 suggests the relationships between building types and structural costs.

The very low figure for FHA 213 cooperative housing corresponds to a very high proportion of walkup units. The higher per-unit figures are for FHA 207 and FHA 220 housing, which contain the highest proportions of elevator units.

Structural costs per square foot for FHA 231 housing for the elderly are the highest, at \$15.53,

<sup>5</sup> The FHA-estimated amount of the mortgagor's earning capacity, after deductions for Federal income taxes, that is likely to prevail during the first third of the mortgage term.

TABLE 6.—CONSTRUCTION TYPES AND STRUCTURE COSTS FOR SELECTED FHA MULTIFAMILY PROJECTS BY PROGRAM: PROJECTS RESERVED IN 1964

FHA programs	Percent distribution of projects <sup>1</sup>			Percent distribution of dwelling units <sup>1</sup>			Median structure cost/ dwelling; dollars per square foot 1966
	Walkup	Elevator	1 family	Walkup	Elevator	1 family	
Rental 207.....	33.3	61.1	5.6	16.0	81.4	2.6	\$12.53
Management Cooperative 213.....	80.0	11.4	8.6	86.0	8.0	6.0	9.84
Redevelopment 220.....	15.0	85.0	.....	5.7	94.3	.....	12.49
Low- and moderate-income 221:							
(Market).....	52.0	28.0	20.0	39.7	31.6	28.7	.....
(BMIR).....	50.4	9.3	40.3	51.4	20.4	28.2	10.60
Senior citizens 231.....	36.7	63.3	.....	45.6	54.4	.....	15.53

<sup>1</sup> Reported for all projects reserved in calendar year 1964. It is assumed that the projects reported under construction in fiscal year 1966 in other tables discussed in this chapter were the same projects or had the same general characteristics.

Source: HUD Annual Report—1965 and table 17.

though the proportion of elevator units is lower than for either FHA 207 or FHA 220 housing. At the same time, the per-unit costs shown in table 17 are relatively low compared to most other programs. The cost of public housing for the elderly, at \$11,385 per unit, is significantly lower than the costs of other programs. The high-cost figures on a square foot basis and low-cost figures on a per-unit basis reflect the small size of such units, which keeps unit costs down but increases structural costs because of the need to provide basic appliances and mechanical installations regardless of the smallness of the unit.

More detailed cost information on FHA multifamily housing was prepared for the Com-

mission, based on a review of 236 projects begun during the period fiscal 1962 through 1966, from which 87 projects were selected as representative. Summary data for all programs by building type appear in table 7.

As with homeownership, the development costs of rental property are normally financed by a mortgage. With rental property, the debt service is included in the monthly rental charge.

(2) *Operating costs.*<sup>2</sup>—In addition to paying a pro rata share of interest and amortization of mortgage principal, the tenant pays for operating expenses in his monthly rent. These expenses

<sup>2</sup> Most of the data on operating costs and monthly rentals was obtained from the Institute of Real Estate Management of the National Association of Real Estate Boards.

TABLE 7.—SELECTED COST COMPONENTS OF 87 SELECTED HUD MULTIFAMILY PROJECTS BY BUILDING TYPE: 1962-66

	Type of structure			Row
	All projects	Elevator	Walkup	
Total development cost:				
High.....	\$41,269	\$41,269	\$20,954	\$19,767
Median.....	15,110	20,826	13,388	13,277
Low.....	8,102	12,464	8,102	8,111
CONSTRUCTION COST/SQUARE FOOT				
(Total development cost less site cost):				
High.....	21.66	21.66	12.90	13.63
Median.....	10.16	14.35	9.61	9.66
Low.....	6.70	10.16	6.70	8.25
PERCENT OF DEVELOPMENT COST				
Site acquisition:	(Percent)	(Percent)	(Percent)	(Percent)
High.....	22.4	22.4	20.2	21.4
Median.....	8.6	8.3	9.6	7.6
Low.....	.6	1.8	.6	2.3
Site improvement:				
High.....	17.1	3.4	12.3	17.1
Median.....	5.9	1.2	5.7	6.4
Low.....	.1	.1	2.6	2.6
Structure:				
High.....	80.2	80.2	78.5	73.2
Median.....	68.4	72.2	66.6	67.0
Low.....	49.5	62.0	56.6	49.5
Overhead:				
High.....	10.0	10.0	7.6	8.1
Median.....	6.0	6.9	5.7	5.4
Low.....	4.2	4.3	4.4	4.2
Fees:				
High.....	20.5	20.5	20.2	15.9
Median.....	10.7	11.6	10.9	10.7
Low.....	3.8	3.8	5.8	8.0

<sup>1</sup> 2d high—High is a small FHA 220 unit, 983 sq. ft., with a structure cost of \$27.84 per sq. ft.

Source: Department of Housing and Urban Development.



are basically the same as those incurred by the homeowner, except that they include the cost of management services, which the homeowner provides for himself.

In 1966, for the country as a whole, operating costs consumed about 48 percent of gross possible income for elevator buildings, 52-53 percent for low-rise buildings, and 45 percent for garden-type apartments.<sup>7</sup> Losses in income due to vacancies and delinquent rents equalled 3.6 to 5.2 percent of gross possible income; debt service and return on equity were paid out of the remaining 48 percent for elevator buildings, 43 percent for low rise, and 49.5 percent for garden type. Thus, generally speaking, the operating cost-development cost breakdown (including service on both debt and equity) for multifamily housing tends to be more evenly balanced on a 50-50 basis than for single-family houses, as evidenced by FHA 203 houses which required an average debt service of 58.7 percent in 1966.

Variations in the operating expense ratio by type of construction and region are shown in table 8.

TABLE 8.—AVERAGE ANNUAL RENT PER ROOM AND OPERATING EXPENSE RATIO BY TYPE OF STRUCTURE AND REGION: 1966

	North	South	West
Rent per year per room:			
Elevator.....	\$570	\$549	\$594
Low-rise:			
12 to 24 units.....	324	264	332
25-plus units.....	370	330	366
Garden-type.....	334	292	332
Operating expense ratio (percent):			
Elevator.....	49.5	44.9	47.8
Low-rise:			
12 to 24 units.....	55.4	46.8	45.2
25-plus units.....	54.0	49.3	48.3
Garden-type.....	48.3	43.6	41.9

Source: Institute of Real Estate Management of the National Association of Real Estate Boards.

The FHA value of new single-family FHA 203 housing in the postwar period has increased 100 percent since 1948. In the 1958-66 period, average sales price increased by 23.5 percent. A new price index from the Census Bureau, issued in July 1968, indicates an increase of approximately 10 percent in the sales prices of single-family houses sold during the period 1963-67. These figures reflect not only increases in prices of component items, but also the demand for higher quality and more amenities.<sup>8</sup> Total monthly housing expense (including debt service and operating costs) for new FHA 203 houses increased by 38.7 percent from a 1957-59 base year to 1966.

Though comparable, detailed data on cost trends for rental housing are not available, it appears that similar increases—reflecting the same underlying trends in component costs—occurred in multifamily housing. However, the different mix of components and their different rates of change can result in variations in total housing cost for single-family and multifamily units. Thus, for example, the rapid rise in land prices (described below) will tend to have a greater effect on single-family houses than on multifamily houses because land costs take a larger share of single-family house costs. Another factor making for disparate increases is that rental charges tend to lag behind operating cost increases.

Table 9 summarizes various cost indexes and provides background data for the following discussion of trends in component costs.

#### Site costs

The single most dramatic increase in the cost of a major component has occurred in site costs. The average site cost for FHA 203 houses in 1966, \$3,544, was more than 3½ times higher than the price of \$1,049 in 1948. Average site costs in the continental United States ranged from a low, in absolute dollar terms, of \$1,684 in Maine to a high of \$5,890 in California. In percentages, site costs represented less than 12 percent of FHA value in 1948 as compared with nearly 20 percent in 1966. Percentages in 1966 ranged from a low of 11.1 percent in Idaho to 26.1 percent in California.

Site costs consist of the costs of land acquisition and site improvement, and both have increased at astounding rates. Land acquisition costs are a function of many factors, including population increases, distance from the central city or from major regional facilities, access to transportation, zoning, etc. Geographic differences are significant, though substantial increases in lot prices have occurred in virtually every part of the Nation. The South Atlantic and Pacific Regions experienced the greatest increases during the 1957-66 period—69 and 82 percent, respectively. As shown in table 1, one major California builder attributes 24 percent of capital cost to raw land acquisition. In multifamily structures, the story is very much the same. Land acquisition costs for public housing in New York, for example, increased by 48 percent from 1957-59 to 1964-66, and for limited profit, moderate-income housing in New York these costs increased by 59 percent from 1957 to 1967.

Site improvement costs are incurred in preparing a site for building and providing required facilities for servicing the building once

<sup>7</sup> Gross possible income is the total rent obtainable if all units are occupied and all rents paid.

<sup>8</sup> Average floor area, for example, increased by 24.5 percent over the 1948 to 1966 period.

TABLE 9.—SELECTED INDEXES OF HOUSING AND CONSTRUCTION COSTS

Item	Percent increase in cost from			
	1957-59 to 1966	1957-59 to →	Date	← 1966 to
Consumer price index:				
Renters, housing.....	10.4	14.2	March 1968.....	3.4
Owners.....	15.7	23.8	do.....	7.0
Interest on mortgage.....	6.7	13.7	do.....	6.6
Insurance rates.....	28.8	40.6	do.....	9.2
Real estate taxes.....	(1)	(1)	do.....	9.2
Residence water and sewer.....	26.1	33.8	do.....	6.1
FHA 203 single family house:				
Taxes and assessments.....	40.5	(1)	.....	(1)
Expense/month.....	38.7	(1)	.....	(1)
Size of house.....	6.0	(1)	.....	(1)
FHA value.....	24.0	(1)	.....	(1)
Equivalent market price of site.....	60.0	(1)	.....	(1)
Structure cost/square feet.....	10.6	(1)	.....	(1)
Building cost indexes:				
American appraisal.....	27.0	40.0	May 1968.....	10.0
Boeckh:				
Residence.....	20.1	33.3	April 1968.....	10.0
Apartment.....	23.2	36.2	do.....	10.0
Engineering News-Record, Building.....	23.6	34.8	May 1968.....	9.0
Associated General Contractors.....	27.0	36.0	do.....	7.0
George A. Fuller.....	27.0	32.0	April 1968.....	4.0
Turner Construction Co.....	16.0	23.0	do.....	6.0
Department of Commerce, General.....	21.0	32.0	May 1968.....	9.0
Wholesale prices:				
Construction materials.....	3.9	10.2	do.....	6.1
Lumber.....	8.5	25.3	do.....	15.5
Millwork.....	10.0	17.8	do.....	7.1
Plywood.....	(-7.2)	(-2.7)	do.....	4.8
Fabricated steel products.....	3.9	6.7	do.....	2.7
Concrete ingredients.....	3.9	9.1	do.....	5.0
Concrete products.....	3.0	7.6	do.....	4.5
Structural clay products.....	8.4	12.5	do.....	3.8
Labor earnings:				
Construction workers: earnings/hour.....	38.0	53.0	do.....	11.3
Earnings/week (not including fringe benefits).....	40.0	57.0	do.....	12.0
Union wages, building trades, exclusive of fringe benefits.....	36.9	44.6	1967.....	5.6
20-cities average including fringe benefits:				
Common labor.....	(2)	8.1	.....	(3) 14.4
Skilled labor.....	(2)	7.6	.....	(3) 14.4

<sup>1</sup> Not available.

<sup>2</sup> June 1967 to June 1968.

<sup>3</sup> June 1966 to June 1968.

Source: The Consumer and Wholesale Price Indexes and the data on construction workers' earnings, exclusive of fringe benefits: Bureau of Labor Statistics; Building cost indexes are collected and reported in Department of Commerce Construction Review; data on FHA 203 houses: FHA 203 Homes, Series Data Handbook, a Supplement to FHA Trends, 203b, 1966 RR 251; 20-cities average earnings including fringe benefits: Engineering News-Record.

erected. Where redevelopment occurs or initial development takes place on an isolated lot in a builtup area, such costs involve preparing the site itself for the structure—clearing it, excavating, grading, landscaping, and the like—and connective plumbing facilities to existing sewer and water systems. Where land is newly subdivided, site development costs may, in addition, include the provision of streets, curbs, sidewalks, gutters, street lighting, sewers, and a variety of other facilities required by a subdivision ordinance.

Table 10 shows a percentage breakdown of site improvement costs in three new subdivisions.

Site development costs may well be larger in certain instances than land acquisition costs. In three of the projects reported in table 1, they were in fact larger, and in one case they were more than three times as large. Site development cost increases have, in some places, outstripped even the very rapid rise in land acquisition costs. Thus, for example, the 59-percent increase in land acquisition costs for limited profit, moderate-income housing in New York

TABLE 10.—SINGLE-FAMILY HOUSE SITE IMPROVEMENT COSTS (LARGE-SCALE BUILDERS)<sup>1</sup>

	Percent distribution		
	West coast	Long Island	Philadelphia
Total site improvements.....	100.0	100.0	100.0
Site clearing.....	—	4.9	1.2
Excavate, grade, pave.....	47.8	—	—
Excavate plots and roads.....	—	13.8	6.0
Curbs and streets.....	—	23.6	23.4
Aprons.....	—	3.9	5.1
Water system.....	14.6	(46.2)	(35.7)
Mains and storage tank.....	—	—	6.4
Distribution.....	—	12.6	7.9
Storm drainage.....	2.6	14.8	11.6
Sewer system.....	12.6	(15.8)	(19.7)
Sanitary sewers.....	—	15.8	13.1
Trunk sewers.....	—	—	6.6
Street lights, lighting.....	3.6	1	1.4
Community amenities.....	—	1.3	12.3
Exhibit area.....	—	1.4	8
Fees, permits, inspect, bond.....	3.1	3.9	8
Reserve.....	—	3.9	3.4
Engineering and soil reports.....	8.8	(1)	(1)
Landscaping, signs, prints.....	1.9	—	—

<sup>1</sup> Based upon cost estimates of 2 of the largest builders in the United States.

<sup>2</sup> Underground.

<sup>3</sup> Swim clubs, park and recreation areas, golf course.

<sup>4</sup> In regional office costs.

Source: Data submitted to the Commission by the builders.



between 1957 and 1967 was accompanied by a 150-percent increase in site improvement costs, making for a total site cost increase of 79 percent.

Site improvement costs vary with the geographical nature of the area and characteristics of the terrain on which a particular project is located. More important, in most places, than peculiar geological conditions, however, are the requirements of local subdivision regulations, which prescribe standards for streets, curbs, lighting, and other utilities. A recent study of Suffolk County in the New York metropolitan area, for example, shows that the developer's costs for site improvement in otherwise identical subdivisions of 15,000-square-foot lots would vary as much as 52 percent depending on which of three neighboring townships' subdivision regulations was followed.<sup>9</sup> The figures for township B in table 11 are based on actual expenditures; those for townships A and C are estimated. The three townships are within 50 miles of each other.

TABLE 11.—COMPARISON OF SITE IMPROVEMENT COSTS FOR SUBDIVISIONS OF 15,000 SQUARE FOOT LOTS IN THREE TOWNSHIPS OF SUFFOLK COUNTY: 1966

Township	Subdivision regulations considered—	Improvement costs per lot	Percent difference
A.....	Lenient.....	\$2,900.....	.....
B.....	Moderate.....	3,600.....	+24
C.....	Stringent.....	4,400.....	+52

Source: Raymond and May and Eberlin and Eberlin, pt. IV, study No. 2, "Progress Report of Residential and Market Analysis," prepared for Nassau-Suffolk Regional Planning Board, September 1968.

The different standards which cause the major variations in cost concerned street paving, sidewalks, and trees. Township A, for example, requires subdividers only to construct gravel and oil topped roads and it has no requirements for sidewalks or trees.

Site improvement costs also depend on the size of lots and, more particularly, on the width of lots. Lot width determines the number of linear feet of improvements required to service one house, and each additional foot results in added costs.<sup>10</sup>

### Structure costs

The costs of constructing the building itself represent the largest single element of development costs. Structure costs may be divided into four categories: (1) foundations, frame and shell; (2) interior finish; (3) mechanicals; and

(4) major appliances. The general relationships among these categories are shown in table 12 for single-family dwellings. The California and Ohio projects are the same as those shown in table 1. The Long Island and Philadelphia projects, for which absolute costs are not reported, are developments of moderately priced houses by large-scale developers.

In multifamily buildings, costs vary depending on the type of structure. In high-rise construction, costs for frame and shell will generally represent a somewhat higher percentage of total structure costs because of heavier materials and the need for greater fireproofing. Figures for FHA 207 walkups and high-rise apartments are shown in table 13.

The major ingredients in structure costs are labor and materials. As table 13 indicates, direct labor costs represented slightly more than 40 percent of structure cost in 1966, with materials and job overhead making up the remainder.

Labor input, of course, varies with the particular operation to be performed. Thus, onsite labor for steel or concrete generally accounts for 20-25 percent of the total costs of these particular items. On the other hand, labor accounts for 75 percent of the cost of painting and decorating and 60 percent of the cost for masonry.

TABLE 13.—DISTRIBUTION OF MATERIAL AND LABOR COMPONENTS OF STRUCTURE COSTS FOR MULTIFAMILY DWELLINGS, 1966

Type of work, major groups	Percent of total building cost			
	High-rise apartments		Walkups	
	Total cost	Labor only	Total cost	Labor only
Total cost.....	100.00	41.98	100.00	40.63
Excavation of foundations.....	.88	.66	1.29	.86
Frame and shell.....	39.15	15.07	36.47	13.04
Interior finish.....	25.41	11.64	24.91	11.58
Mechanical subcontracts.....	24.49	11.11	27.91	11.54
Elevators.....	2.90	1.02	.....	.....
Appliances.....	2.14	.....	2.73	.....
Cabinets, kitchen and medicine....	2.64	.65	3.66	1.78
Job overhead.....	2.32	1.83	3.03	1.83

Source: Department of HUD.

The materials and labor components appear to have increased at quite different rates. As of May 1968, the price of all construction materials had increased by 10.2 percent from 1957 to 1959, according to the Wholesale Price Index. Variations among particular materials were substantial.

Wage rates for construction workers have increased steadily in recent years. Average hourly earnings and average weekly earnings for construction workers increased 53 and 57 percent during the period 1957-59 to May 1968, exclusive of fringe benefits. Union hourly wages in

<sup>9</sup> Raymond & May and Eberlin & Eberlin, Part IV, Study No. 2, *Progress Report of Residential and Market Analysis*, prepared for the Nassau-Suffolk Regional Planning Board, Sept. 1968.

<sup>10</sup> See a more complete discussion of the effects of zoning ordinances and subdivision regulations on site costs contained in Part III.

TABLE 12.—DISTRIBUTION OF STRUCTURE COSTS FOR SINGLE-FAMILY HOUSES IN SELECTED PROJECTS, 1966-67

Component	Project					
	California		Ohio		Long Island (percent)	Philadelphia (percent)
	Amount	Percent	Amount	Percent		
Area of house, square feet.....	1,678		1,000			
Total, structure cost.....	\$10,450	100	\$11,111	100	100	100
Foundations, frame and shell:						
Concrete.....	888	8.5	1,267	11.4	10.0	9.0
Lumber.....	1,379	13.2	3,456	31.1	6.9	6.9
Trucking and delivery.....					1.0	.5
Carpentry.....	1,223	11.7	1,567	14.1	27.5	28.5
Sheet metal.....	84	.8			.5	.5
Masonry.....	324	3.1			3.6	1.8
Roofing.....	763	7.3	222	2.0	8.6	6.4
Doors and windows.....	627	6.0				
Subtotal.....	5,288	50.6	6,511	58.6	58.1	53.6
Interior finish:						
Painting.....	533	5.1	600	5.4	4.7	4.0
Drywall.....	805	7.7	567	5.1	8.1	8.8
Lath, plaster, stucco.....	397	3.8				
Building specialties, hardware.....	136	1.3			1.6	1.2
Bathroom walls.....	136	1.3	100	.9	1.5	1.4
Flooring.....	293	2.8	522	4.7	3.3	3.3
Cabinets and enclosures.....	554	5.3	500	4.5		
Subtotal.....	2,853	27.3	2,289	20.6	19.2	18.7
Mechanicals:						
Plumbing.....	1,285	12.3	1,044	9.4	6.7	6.4
Heating and/or air conditioning.....	209	2.0	589	5.3	7.1	12.8
Electrical.....	491	4.7	522	4.7	3.7	4.4
Subtotal.....	1,986	19.0	2,156	19.4	17.5	23.6
Major appliances.....	324	3.1	156	1.4	5.2	4.1

<sup>1</sup> Full central air conditioning.

Source: Data submitted to the Commission by the builders.

the building trades increased 44.6 percent from 1957-59 to 1967. Fringe benefits have also shown substantial increases. The special mechanical trades, including electricians, plumbers and other workers employed in heating, ventilation, air conditioning, generally experienced the highest wage increases.

#### *Financing and closing costs.*

Another major factor in the increasing costs of housing is the substantial increase in financing costs in recent years. Two basic types of financing costs must be considered. *First*, there is the so-called interim financing cost, which consists of financing costs incurred by the developer and builder during the time of land assembly, site preparation, construction and marketing but prior to the actual sale or rental of the structure. Money is needed during this period to finance the purchase of materials, labor and various other types of inputs. These costs may amount to as much as 6 percent or more of the selling price, as shown in table 1. They are determined by the amount the developer or builder must borrow, the term of the loan, and the interest rate. Thus, the cost of interim financing will generally increase as structure costs and the time required for construction increase. Normally the interest rate on interim financing is about the same as that on permanent financing, though the shorter term of interim financ-

ing loans may result in some minor variations. In tight money situations, the rate on interim financing will normally be somewhat higher than that on permanent financing, especially for multifamily construction.

The *second* type of financing cost is permanent financing—the cost required to amortize the selling price. Mortgage interest rates for permanent home mortgages are determined by a variety of complex economic factors of which construction activity and demand for home mortgages are only a part. National monetary policy and fiscal policy and the demand for funds by governments and individuals all play a part. Fluctuations in mortgage interest rates can be substantial, depending upon how these numerous factors converge at any one time. Moreover, differing local conditions and sluggish responses to demand and supply pressures in local areas make for differences in prevailing rates in various localities and regions at any one time.

Permanent financing charges are levied by the lender in two ways. First, they are imposed as the stated interest charges on the unpaid balance of the mortgage loan. In this form they are borne directly by the home owner and, in the case of rental property, by the tenant as one element of his monthly payments. Second, they take the form of points charged against the



mortgage amount (one point equalling 1 percent of the principal) at the time the loan is made.

Charges for points arise primarily in connection with FHA-insured mortgages. They are a device by which the lender can achieve a market yield on his loan despite the imposition by FIAA of a ceiling on stated interest rates. In recent years they have also been used in connection with conventional mortgages to increase yields where State usury laws impose ceilings below going market rates. Under FHA regulations the buyer of a house cannot be required to pay more than 1 point; the seller must pay the rest. In fact, the seller of new housing considers his payment for points as a cost and thus passes it along to the buyer in the selling price. Thus, in table 1, points are shown as a cost item.

The combination of the stated interest rate and points is the effective yield to the lender and, in one form or another, it is the buyer who bears these costs. Despite occasional short-term declines in home mortgage interest rates, the postwar trend in yields has been almost steadily upward. In the early 1950's, yields on conventional mortgages commonly were about  $5\frac{1}{4}$  to  $5\frac{1}{2}$  percent. For the last few years, they have more normally been about  $6\frac{1}{2}$  percent, and still more recently they have gone above 7 percent. In response to these trends and in an effort to limit the number of points, several States have found it necessary to increase statutory interest ceilings.

Whereas in the past lenders on FHA-insured mortgages required lower yields than on conventional mortgages, the gap has now been substantially closed. As a result, increases in yields on FHA mortgages during the postwar period have been even larger than on conventionals. In the early 1950's, yields on FHA-insured mortgages were generally less than 5 percent. Today they are nearer 7 percent. In May 1968 the statutory ceiling on FHA mortgages was increased from 6 to  $6\frac{3}{4}$  percent.

As noted, points paid for by the seller are, like other development costs, included in selling price. Points charged to the buyer, like the down

payment, require immediate payment at the time of closing. The mortgage interest rate is paid each month on the unpaid balance of the mortgage loan. Monthly debt service payments (which include interest and amortization of principal) will vary with the interest rate, principal amount, and term of the mortgage. They will vary proportionally with the principal amount, other things being equal. Thus, a 10-percent increase in the mortgage principal will produce a 10-percent increase in monthly payments. Table 14 shows the effects of varying the interest rate and term.

The proportion of debt service attributable to the interest charge steadily decreases as time goes on, since the principal amount outstanding, on which the interest charge is levied is being reduced. Thus, for example, assuming a \$10,000 mortgage at 6 percent for 20 years, monthly payments will be \$71.65. At the end of 1 year, only \$267.08 will have been applied against the principal amount and \$592.72, or 68.9 percent of the year's payments will have gone toward interest. Not until well into the eighth year (month 102) do payments toward the principal exceed interest charges.

The total amount paid over the life of the mortgage will vary with the amount of the mortgage principal, the interest rate and the term, as shown in table 15.

Closely related to financing costs are closing costs, which include a package of charges related to obtaining permanent financing and transferring title to the property. Since such costs are normally paid for in the first instance by the buyer and not included in the selling price, they are often left out of cost computations. Such costs vary substantially depending on local "closing" and title insurance practices as described in part V, chapter 3. Average closing costs on FHA 203 houses in 1966 amounted to \$394, or 2.2 percent of sales price. From 1957-59 to 1966, such costs increased by 33 percent.

#### *Other Development Costs*

In addition to site, structure, and financing costs, development costs include profit, over-

TABLE 14.—MONTHLY PAYMENTS ON A \$15,000 MORTGAGE AT VARIOUS TERMS AND INTEREST RATES

Term (years)	Interest rates (percent)							
	3½	4	4½	5	5½	6	6½	7
10.....	\$148.33	\$151.87	\$155.46	\$159.10	\$162.79	\$166.53	\$170.32	\$174.16
15.....	107.23	110.95	114.75	118.62	122.56	126.58	130.67	134.82
20.....	86.99	90.90	94.90	98.99	103.18	107.46	111.84	116.30
25.....	75.00	79.18	83.37	87.69	92.11	96.65	101.28	106.02
30.....	67.36	71.61	76.00	80.52	85.17	89.93	94.81	99.80
35.....	61.99	66.42	70.99	75.70	80.55	85.53	90.62	95.83
40.....	58.11	62.69	67.43	72.33	77.37	82.53	87.82	93.21
50.....	52.98	57.86	62.91	68.12	73.48	78.96	84.56	90.25

Source: Commercial and industrial mortgage tables, Mortgage Publications Co., Boston, Mass.

TABLE 15.—TOTAL AMOUNT OF INTEREST PAYABLE ON A \$10,000 MORTGAGE AT VARIOUS TERMS AND INTEREST RATES

Years	Percentage			
	5	6	7	8
20.....	\$5,840	\$7,196	\$8,607	\$10,071
25.....	7,979	9,332	11,204	13,157
30.....	9,328	11,586	13,954	16,417
35.....	11,189	13,948	16,834	19,832
40.....	13,146	16,214	19,832	23,379

Source: Data supplied by the Federal Home Loan Bank Board.

head, marketing, and fees of various types (e.g., charges for the services of architects and lawyers). Considered together, these costs, as reported, range from 16 to 28 percent of total development costs.

A number of cost breakdowns presented earlier in this chapter contain figures which purport to isolate "profit." The NAHB survey shown in table 2 suggests that average profit before taxes is 3 percent, varying in a range of 2 to 6 percent. Table 1 shows profits and overhead varying from 7 to 13 percent, with overhead including numerous items of expense for design, legal fees, accounting, et cetera. The separate figures for profit shown in table 1 vary from 1.9 to 8.9 percent.

Analyzing such figures presents great difficulties. Accounting systems, as noted earlier, differ widely. What is profit on one statement may be general overhead on another. In a business characterized by single proprietorships and partnerships—the prevailing forms of ownership in the construction industry—"salaries," an item normally included in overhead, may in fact represent profit. Moreover, amounts shown as "costs" by a builder—e.g., land and construction materials—may in fact contain some element of profit.

Though most builders do not inventory components, some do. In particular, a builder may purchase land well in advance of actual construction and include a profit on the land in the final price of his building. In some instances the land is held in a separate company, which is controlled by the builder, prior to the time it is actually needed as a construction site. It is later transferred to the construction company when work begins. It should be noted that such a practice does not necessarily increase the selling price of the building. If the builder bought the land at the time he began construction, the final price of the house would reflect a profit margin for the seller of the land, which might be the same, more, or less than the margin the builder might require.

Discussions with knowledgeable builders and real estate investors suggest that the average builder of single-family homes usually aims for

a profit of 15 to 20 percent of gross sales, where profit includes gains on all cost components. Thus, for example, a builder may add an 8-percent fee on a house in which all cost factors add up to \$20,000, making the selling price \$21,600. One cost item may be \$5,000 for land which in fact the builder acquired for only \$1,000, 10 years earlier. If, after deducting property taxes and interest during the holding period, the profit on land amounts to \$2,720, then total profit to the builder is \$4,320 (\$2,720 plus \$1,600), or 20 percent.

Builders' overhead and profit and architects' fees are included as "fees" in table 7 for HUD multifamily projects. Median figures are generally about 11 percent. Again, additional "profit" may be present in cost items not designated as such. In a number of HUD programs—including 220, 221(d)(3) (limited dividend), 221(d)(4) and 231 (for profit)—a 10-percent builder and sponsor's fee for profit and risk are allowed by law. In others, a sliding scale guide is generally used to determine an appropriate builder's fee, beginning at 10 percent for projects of up to \$100,000 and going down at higher amounts to a low of 4.25 percent for projects over \$12 million.

#### Operating Costs

Operating costs, as noted above, today account for about one-half the rental charge on multifamily homes. Of this amount, heat, utilities, and property taxes represent the largest items. See tables 3 and 4.

Increases in operating expenses have been among the most substantial percentage increases in costs. Heat and utilities for FHA 203 housing increased by 30 percent from 1959 to 1966; maintenance and repair rose by 33 percent; and taxes and assessments by 40 percent during the same period.

#### THE SIGNIFICANCE OF COST RELATIONSHIPS

There is an important distinction between the ability to reduce the absolute cost of a particular component and the effect of any such reduction on the final expense to the consumer. The *percentage* of total cost accounted for by a particular component may tell little about the ability to achieve reductions in its cost. The important factor is the *absolute dollar amount*. One builder's structure costs, for example, may be 70 percent of total development costs; another builder's structure costs—though identical in absolute dollars—may represent only 40 percent of the total cost. A \$1,000 reduction in structure cost will result in at least a \$1,000 reduction in total development cost for both builders.

But the proportionate effect on the final selling price of the house will vary depending on



the share of the total cost borne by structure costs. Reductions in items which consume a larger percentage of total cost will obviously have a more significant relative impact than reductions in other items. If total structure costs are \$10,000 and there is a \$1,000 reduction (10 percent), the effect on the sales price for the builder whose construction cost is 70 percent will be a reduction of 7 percent (10 times 70 percent) as compared with a reduction of 4 percent (10 times 40 percent) for the builder whose structure costs equals 40 percent of selling price.

Such neat arithmetic calculations, however, fail to reflect certain interrelationships among various cost components. In particular, it appears that a number of cost items are themselves determined at least in part by others.

Assume, for example, a house having structure costs of \$10,000 and a selling price of \$20,000. What will be the effect on selling price of a 10-percent reduction, \$1,000, in structure costs? If the builder adds 8 percent onto cost for profit, a \$1,000 reduction in structure costs will produce a \$1,080 reduction in sales price by this factor alone. Assuming the builder also will be required to pay five points for the permanent financing (on a 90-percent mortgage), a reduction in sales price by \$1,080 will reduce the charge by \$49. Thus the effect of a \$1,000 reduction in structure cost, considering profit and permanent financing only, will reduce the price by about \$1,129; or, to state it another way, a \$1 reduction in structure costs results in a \$1.13 reduction in selling price. Obviously if profit margins are higher or financing is more expensive, this expansion effect will be even greater. In addition, other items of cost will also be affected. Interim financing costs and closing costs will be reduced. Architects' fees, often stated as a percentage of construction costs, will decrease, as may other fees and marketing charges. Certain operating expenses will also be affected. Property taxes and hazard insurance should be reduced because of the lower selling price.

Another kind of multiple effect occurs in de-

termining how extensive a housing unit a person can afford. An oft-stated rule of thumb is that a person should spend not more than 25 percent of his monthly earnings on his monthly housing expense. Thus, for every additional dollar of monthly expense, he must earn an additional \$4. In these terms, the importance of even relatively minor cost changes becomes apparent.

In the remaining chapters of part V, the Commission considers various approaches to reducing the costs of housing. It does so in the belief that cost reduction, to the extent consistent with maintaining and improving quality, must be a vital part of public and private efforts to achieve national housing goals.

Such a statement of principle may appear to affirm the obvious, but in fact there are those who suggest that cost-reducing efforts are largely a waste of time and likely to interfere with the main job of producing more housing units. They delight in pointing out that even if the cost of a particular component were reduced, the impact on total housing costs would be minimal. Thus, for example, they suggest that reducing structure costs by 10 percent would only reduce selling price by 5 percent (assuming that structure costs are half of the selling price) and would reduce monthly housing expense by only 2½ percent (assuming debt service is half of monthly housing expense).

It is true, of course, as this chapter has demonstrated, that the housing dollar goes to pay a variety of costs, many of which are relatively small in relation to the total. But this does not validate the *reductio ad absurdum* argument and should not result in frustration and inaction. Rather it suggests the need for patient, persistent efforts to reduce costs wherever possible. The search is not for panaceas, though discussions of cost reduction are often attacked as such. But the cumulative results of many small, undramatic cost reductions can be significant. It may be that one can win the battle and still lose the war; but failure to fight the battles will surely not produce victory.

TABLE 16.—MAJOR COMPONENTS IN THE PRICE RISE OF FHA 203 HOUSES, 1948-66

Year	Calculated floor area (square feet)	Closing costs <sup>1</sup> (average)	Sale price, house (average)	FHA value of house (average)	Site market price (average)	Ratio, site to FHA value (percent)	Construction cost, dollars per square foot (average <sup>2</sup> )
1948.....	972			\$8,965	\$1,049	11.7	\$8.14
1949.....	909			8,753	1,018	11.6	8.51
1950.....	894			8,594	1,035	12.0	8.45
1951.....	942	\$470	\$9,780	9,307	1,092	11.7	8.72
1952.....	968	217	11,077	10,245	1,227	12.0	9.31
1953.....	953	181	10,515	10,357	1,291	12.5	9.51
1954.....	990	200	10,985	11,120	1,456	13.1	9.75
1955.....	1,049	254	12,113	12,118	1,626	13.4	10.00
1956.....	1,104	284	13,468	13,399	1,887	14.1	10.43
1957.....	1,146	301	14,541	14,464	2,148	14.9	10.75
1957-59.....	1,141	298	14,424	14,503	2,244	15.5	10.75
1958.....	1,138	313	14,283	14,394	2,223	15.4	10.70
1959.....	1,140	281	14,448	14,650	2,362	16.1	10.78
1960.....	1,142	289	14,662	14,899	2,470	16.6	10.88
1961.....	1,141	301	14,894	15,167	2,594	17.1	11.02
1962.....	1,162	314	15,169	15,489	2,715	17.5	10.99
1963.....	1,182	329	15,878	16,222	2,972	18.3	11.21
1964.....	1,206	349	16,216	16,548	3,113	18.8	11.14
1965.....	1,228	376	16,825	17,190	3,427	19.9	11.21
1966.....	1,210	398	17,605	17,974	3,589	20.0	11.89
(1966 <sup>3</sup> ).....	1,207	394	17,731	18,099	3,544	19.6	12.16)
Increase (percent):							
1948 to 1966.....	24.5	( <sup>4</sup> )	( <sup>4</sup> )	100	259	71	46.1
1957 to 1959 to 1966.....	6.0	33	22.0	24	60	29	10.6
1958 to 1966.....	6.5	27	23.5	25	61	30	11.1

<sup>1</sup> Shown on FHA 203 tables as "Incidental costs"—are added to sale price of house unless builder stated specifically that his price includes closing costs.

<sup>2</sup> Construction cost per square foot as used here is computed by subtracting market price of site from FHA value of house and site and dividing the result by calculated floor area.

<sup>3</sup> Figures as shown on a State-by-State basis slightly different. Source: "Data for States," FHA 203, RR 250, HUD SOR-3.

<sup>4</sup> Not available.

Source: HUD series data handbook, FHA (203b), 1966.

TABLE 17.—SELECTED COMPONENT COSTS OF PUBLIC OR PUBLIC-ASSISTED HOUSING BY PROGRAM OF PROJECTS BEGUN IN 1966

Program and type of housing	Sample	Development cost per unit		
		High	Median	Low
FEDERAL HOUSING ADMINISTRATION				
Detached houses: <sup>1</sup> Home mortgage insurance, averages (FHA 203).....	( <sup>2</sup> )	<sup>3</sup> \$22,546	\$18,099	<sup>4</sup> \$14,865
Multiunit housing:				
Rental (FHA 207).....	39	36,001	16,524	7,702
Management cooperative (FHA 213).....	16	31,763	18,569	15,376
Redevelopment (FHA 220).....	18	33,117	23,064	12,861
Low and moderate income (FHA 221).....	115	22,180	14,171	8,600
Senior citizen (FHA 231).....	8	29,028	15,650	11,978
HOUSING ASSISTANCE ADMINISTRATION				
Senior citizen (HAA 202).....	38	14,239	11,385	8,718
Low rent, no senior citizen units (HAA).....	69	30,105	16,800	12,843
Some senior citizen units (HAA).....	145	20,850	15,380	11,090
Exclusively senior citizen units (HAA).....	120	19,140	15,535	10,060
Site cost per unit				
Program and type of housing	Sample	High	Median	Low
FEDERAL HOUSING ADMINISTRATION				
Detached houses: <sup>1</sup> Home mortgage insurance, averages (FHA 203).....	( <sup>2</sup> )	<sup>3</sup> \$5,890	\$3,544	<sup>4</sup> \$1,684
Multiunit housing:				
Rental (FHA 207).....	39	6,361	2,520	464
Management cooperative (FHA 213).....	16	5,457	4,350	1,905
Redevelopment (FHA 220).....	18	3,820	1,821	1,030
Low and moderate income (FHA 221).....	115	4,356	1,963	556
Senior citizen (FHA 231).....	8	3,506	1,491	1,112
HOUSING ASSISTANCE ADMINISTRATION				
Senior citizen (HAA 202).....	38	1,826	1,007	265
Low rent, no senior citizen units (HAA).....	69	6,167	3,167	1,650
Some senior citizen units (HAA).....	145	5,690	2,823	520
Exclusively senior citizen units (HAA).....	120	5,230	2,252	830

See footnotes at end of table.



TABLE 17. (Continued)

Program and type of housing	Sample	Construction cost per square foot		
		High	Median	Low
FEDERAL HOUSING ADMINISTRATION				
Detached houses: <sup>1</sup> Home mortgage insurance, averages (FHA 203).....	( <sup>2</sup> )	<sup>3</sup> \$14.38 <sup>7</sup> 15.72	\$12.16	<sup>3</sup> \$11.44 <sup>4</sup> 9.67
Multiunit housing:				
Rental (FHA 207).....	<sup>5</sup> 39	18.33	12.53	7.74
Management cooperative (FHA 213).....	16	14.17	9.84	7.84
Redevelopment (FHA 220).....	18	19.73	12.49	9.55
Low and moderate income (FHA 221).....	115	20.71	10.60	6.82
Senior citizen (FHA 231).....	8	20.88	15.53	12.14
HOUSING ASSISTANCE ADMINISTRATION				
Senior citizen (HAA 202).....	38	21.09	15.39	10.95
Low rent, no senior citizen units (HAA).....	69	<sup>10</sup> 29.69	11.51	8.16
Some senior citizen units (HAA).....	145	19.06	12.18	9.36
Exclusively senior citizen units (HAA).....	120	21.16	16.19	9.77
Floor area per unit (square feet)				
Program and type of housing	Sample	High	Median	Low
FEDERAL HOUSING ADMINISTRATION				
Detached houses: <sup>1</sup> Home mortgage insurance, averages (FHA 203).....	( <sup>2</sup> )	<sup>3</sup> 1,431 <sup>8</sup> 1,500	1,207	<sup>6</sup> 911 <sup>7</sup> 1,067
Multiunit housing:				
Rental (FHA 207).....	39	1,829	1,057	600
Management cooperative (FHA 213).....	16	1,728	1,114	812
Redevelopment (FHA 220).....	18	1,954	1,059	714
Low and moderate income (FHA 221).....	115	1,436	963	737
Senior citizen (FHA 231).....	8	1,415	708	575
HOUSING ASSISTANCE ADMINISTRATION				
Senior citizen (HAA 202).....	38	866	597	433
Low rent, no senior citizen units (HAA).....	69	1,373	984	658
Some senior citizen units (HAA).....	145	1,090	825	516
Exclusively senior citizen units (HAA).....	120	998	692	513

<sup>1</sup> FHA estimated value of property and equivalent market price of site.<sup>2</sup> Variable sample covers 70 percent to 100 percent of new houses.<sup>3</sup> California.<sup>4</sup> Alaska, \$33,473 and \$5,594; Hawaii, \$27,533 and \$11,259.<sup>5</sup> Maine.<sup>6</sup> Alaska, \$27.54 per square foot and 1,013 square feet; Hawaii, \$16.13 per square foot and 1,091 square feet.<sup>7</sup> Minnesota.<sup>8</sup> Arizona.<sup>9</sup> FHA 207-231. Data not available for this 1966 study on the mix of elevator-walkup-row housing.<sup>10</sup> Freakish, \$21.16 more "normal."

Source: Department of HUD.

## CHAPTER 2

# Reducing Construction Costs

For every dollar saved in basic construction costs, there are added savings to the ultimate consumer in reduced construction profits and overhead, interest on loans, tax assessments, and other costs that traditionally relate to construction costs such as architects' and engineers' fees and real estate fees. It is imperative, then, that every promising avenue of construction cost saving be followed up to the point at which the cost saving techniques begin to change the nature of the products in undesirable ways, or significantly reduce the durability, usefulness, or level of amenity, or increase other ownership costs.

### THE NATURE OF THE BUILDING INDUSTRY

Homebuilding in the United States, in many of its aspects, is an example of the small-scale, handicraft type industry. As industry after industry has been industrialized, work has become more finely subdivided. More capital per worker has been provided, and production has increased for each combined unit of labor and capital. The material standard of living has risen. While some of these changes have come into building, more than almost any other industry it produces under conditions similar to those common a half century ago.

The building industry is a loose conglomeration of small participants who come together on a project-by-project basis. The initiator of the construction process brings together architects, engineers, and a general contractor for a given building development. In the past almost all private residential construction was initiated by a merchant builder, who built a small number of units for sale, or by an individual owner, ordering a single house for his own use. While this pattern continues to predominate, more recently the building function has sometimes been divorced from the development function—with a developer buying land, planning its development and then calling in builders to perform the construction function.

The typical contractor still builds only a few houses each year and farms out a large part of his work to specialized subcontractors. He might take charge of the foundations and the shell himself, but will have separate subcon-

tractors for the plumbing and the electrical work. He hires painters and bricklayers and numerous other craftsmen to perform specialized tasks. Sometimes he lets these jobs out on sub-contract, while remaining responsible for the purchase and flow of materials and for the general conduct of the work. When each participant completes his particular role, he leaves. Generally speaking the organization is assembled for one job only.

### *Size of firms*

The building industry is composed of thousands of small firms. A preponderant number of construction firms are under sole proprietorship and employ few or no full-time employees. Workers in construction tend to establish their own businesses when opportunities are available and to return to working for others when such opportunities decline. It is quite common that small construction contracts are carried out by skilled craftsmen simultaneously with regular employment.

Although firms engaged in contract construction are not the only ones in the building business, an analysis of their operations illustrates the characteristics of the industry. The statistics for this category of work do not include the operative builders who construct on their own account for sale or lease or investment builders who construct buildings for rental. Those in contract construction include contractors primarily engaged in the erection of buildings, general contractors in heavy nonbuilding construction, and special trade contractors.

In mid-March 1966, there were 322,781 firms with one or more employees engaged in contract construction. General contractors engaged in constructing buildings numbered 93,148 firms, with 937,384 employees. There were 199,917 special trade contractors, employing 1,538,150, with the largest engaged in plumbing, heating and air conditioning; painting and paper hanging; electrical work; masonry, stone work and plastering; and carpentry and wood flooring.

Most firms in the building business are quite small. In 1966, 174,356 contract construction companies, or 54 percent of the total, had one to three employees. Only 10 percent of the total



had 20 or more employees. By contrast, 25 percent of the total number of manufacturing firms had one to three employees, and 36 percent had 20 or more employees.

A 1964 survey by the National Association of Home Builders, which claims that its membership produces 75 percent of all single-family houses and 65 percent of all new housing, indicates that the vast majority of its member builders maintain relatively small operations, with an average production of 49 single-family units a year. About 27 percent of the membership constructed 11 to 25 units, both single family and multifamily, while another 37 percent produced less than 10 units a year. Thus, over 64 percent of all NAHB members produced less than 25 units a year. Almost one-fourth of the members had no full-time employees; 61 percent had fewer than four salaried employees; only about one in nine had 10 or more employees; and only one in 20 had more than 20.

The larger builders do contribute a disproportionate share of total production. Thus, though only about 8 percent of NAHB members constructed over 100 units a year, they accounted for 52 percent of units produced. The 0.8 percent of NAHB members producing over 500 units a year accounted for 14.7 percent of all membership units constructed.

#### *Business failures*

The volatility of the industry is reflected in its extraordinarily high rate of business failures. The number of failures in construction accounted for almost 19 percent of the total number of failures in all industries in 1967. Retail trade was the only major industry that exceeded contract construction in total number of failures. Failures among building subcontractors accounted for more than half of all construction failures. In 1967, building subcontractors, such as painters and plumbers, reported failures of 1,243 businesses out of a total number of 2,261 business failures for all construction contractors; general building contractors accounted for 867 failures; and other contractors, which include heavy construction work, such as highways, accounted for 151.

#### *Employment*

In 1966, there were an estimated 3,762,000 construction workers, employed in 20 separate crafts. Of course, any discussion of specific statistics on construction labor is subject to controversy. The high rate of entry and exit as well as seasonal fluctuations that characterize this industry make it extremely difficult to accurately measure the labor force. There is also a high degree of mobility in job status. An

individual employee may alternate between working as a foreman and as a journeyman. A man who works as an employee may, if the opportunity presents itself, become a contractor for a period and then return to the labor ranks when he completes his work.

More attention will be given to the characteristics of the construction labor force in chapter 4 of this part. For present purposes, however, a number of important features should be borne in mind. First, the labor force consists of skilled craftsmen. Second, the onsite nature of construction makes employment subject to substantial seasonal variation and to interruptions at almost any time due to weather conditions. Third, the nature of the industry itself—highly fragmented and organized on a project-by-project basis—makes for many uncertainties as to amount and duration of employment. As a result, hourly wage rates appear to be quite high compared to prevailing rates in many more “industrialized” industries. The true wage picture must include hours worked as well as hourly rates.

#### PROSPECTS FOR REDUCING HOUSING COSTS WITH EXISTING TECHNOLOGY

Efforts to hold down the cost of building materials and to tie wage increases to increases in productivity are vital parts of any program to restrain rising construction costs. But, in addition, there may be new techniques, new ways of organizing and managing resources, and wholly new technologies which may produce important cost reductions. In this chapter we first consider the present state of the construction industry, examining those developments of new products and techniques which are now in use. In particular, we will consider (1) the role of *prefabrication* and (2) the role of *large-scale building*. Later in the chapter, we look toward the future and the prospects which advanced technology holds for reducing costs, improving quality and contributing to solving the Nation's housing problems.

There is today a belief among many people that the greatest cost reductions, in the first cost of construction, can come about through implant technology. The particular focus here is prefabrication, a technique which has been used widely in the housing industry for many years. Of course, many people in the housing industry view prefabrication as that technique which applies to the finished parts of the shell of the house, not that technique which, in fact, applies as well to such items as appliances, which are also prefabricated. In the pure sense of the

word, prehung doors, air conditioning units, roof trusses and mobile homes are all examples of prefabrication.

However, considering just the walls, roof and floors of dwelling units, both single family and multifamily, the application of prefabrication in the building industry has grown phenomenally in recent years.

To date, most prefabrication in this country has been simply a matter of moving processes of conventional onsite building, as they pertain to the walls, roof, and floors of the house, into a factory. Some of these factories are little more than open lumber storage areas with a few big tables for nailing together roof trusses. Others are fairly sophisticated assembly lines with a great deal of mechanical handling, nailing and stapling equipment.

Some attempts have been made to change the system completely inside the plant. Machinery has been used to foam plastic between exterior and interior skins, to create entire sandwich panel walls. A number of complete steel wall systems have been tried. For one reason or another, these more ambitious efforts have not generally taken hold.

Offsite assembly, encompassing primarily the "shell elements of dwelling units but including some mechanical elements, has taken four basic forms:

(1) *Prefabricated components*.—The offsite assembly of specialized structural and mechanical components is the most widespread form of prefabrication. Such components are shipped from the plant to the site for use in buildings which, in other respects, are constructed by conventional onsite operations. Today, virtually every new dwelling unit built in this country, both high rise and low rise, uses some prefabricated components.

(2) *Manufactured homes*.—The offsite construction of almost all elements of the frame and shell is another form of prefabrication. Walls, floors, and roofs are constructed as separate items and assembled on the site, or complete rooms and dwelling units may be constructed offsite in the form of modules. In this country, most of the important activity in this field has involved frame construction. Other materials which have been more widely used in other countries and have been the subject of experiments here include plastic, brick and various forms of concrete.

(3) *Sectionalized homes*.—These units are essentially manufactured homes for which the walls, floors, and roofs have been assembled in the plant instead of being shipped as big components and assembled at the site. Each house section is usually limited to a 12-foot width (for over-the-road hauling) and a maximum length

of about 60 feet. Two sections are usually placed together on a conventional foundation (crawl-space or basement) at the site to make a finished dwelling unit. Sections are placed by crane or can be rolled, with winches and cable from a low-bed truck right onto the finished foundation. Almost all sectionalized houses and manufactured homes in this country are built with exactly the same materials, used in the same way, as in conventional building.

(4) *Mobile homes*.—One form of sectionalized home is the mobile home. Though the name implies temporariness, such homes have, in fact, become permanent residences for many and have, in recent years, become an important source of new housing starts. Because mobile homes are generally considered a separate industry, they will be dealt with after the discussion of other prefabrication products and processes.

#### THE NATURE OF THE HOME MANUFACTURING SECTOR

Information and official figures in this field are very difficult to obtain. An advisory committee to the Commission, established by the Home Manufacturing Industry, conducted a survey to obtain certain basic information and obtained the following results: There are approximately 600 home manufacturers, about 1,300 builder-fabricators who construct homes and operate their own fabrication facilities, and about 2,100 component fabricators consisting of retail and wholesale suppliers of lumber and building materials operating their own fabrication facilities. Thus a total of about 4,200 plants producing prefabricated homes and pre-assembled components, are scattered all around the country. A special concentration of such plants, containing more than one-quarter of the total, as found in the States of the so-called "Prefab Belt"—Illinois, Indiana, Michigan, Ohio, and Wisconsin. Of the 1.3 million non-farm family homes started in 1967, an estimated 230,000 units, or 18.5 percent, were manufactured homes of one type or another (not including mobile homes).

#### *Prefabricated components*

The most significant growth in prefabrication activities during the past decade has been shown by the component fabricators, though their activities are sometimes overlooked by construction industry critics seeking more dramatic departures from conventional methods. Among the most important examples of such components are the following:

(1) *Trusses*.—Builders throughout the Nation are now using shop-fabricated trusses to support



roofs instead of assembling rafters and ceiling joists on a piece-by-piece basis at the site. In fireproof construction, steel trusses have been used for half a century. The wood members of these trusses are now constructed with power tools and new types of fastenings, such as splittings and metal plates. The most commonly used roof truss in single-family houses consists of an assembly of thin wood members, usually 2 by 4 inches and 2 by 6 inches, which are assembled in the form of a triangle. The apex supports the ridge of the roof. The base of the triangle rests on exterior walls. There is usually a projection of the truss beyond the exterior wall, which forms an overhang around the side of the house.

(2) *Plumbing "trees"*.—Instead of connecting separate pipe sections to individual plumbing fittings and fixtures at the bathroom or kitchen in each house, builders are now installing shop assembled sections of plumbing systems. Standard dimensions for major plumbing sections permit their use in all houses in a builder's construction program, regardless of individual design variations.

(3) *Prehung doors*.—Until recent times, the installation of doors followed the traditional practice of first erecting a frame around the sides and head of each doorway, to cover the exposed sections of the wall construction. The door was then installed by carpenters within the frame and adjustments were made with hand saw and plane to enable the door to open and close easily. The final step on the site was installation within the door and frame of the hardware, consisting of hinges, doorknobs and lock assembly in the door and frame. In order to reduce installation costs, builders now purchase or produce door assemblies that arrive at the site already installed within their frames. The entire assembly is then installed before the wall is finished. (Prehung and/or preengineered doors and their casings (doors and bucks) of steel have been in common use in high-rise construction for at least a generation.)

(4) *Molded fiber glass tubs and enclosures*.—These one-piece, jointless and seamless units first appeared on the market about 10 years ago and after hundreds of code controversies are now accepted in many parts of the country.

(5) *Precast concrete wall and floor panels*.—In fireproof construction such components are popular today in many parts of the country. Thomas Edison developed the first such components for use in housing in about 1906, but they gained little market acceptance at that time.

(6) *Heat pumps*.—These compact units, combining both heating and cooling functions have been used in housing for about decade. The heat pump extracts, or exchanges, heat from one ambient atmosphere to another (usually via a

refrigeration cycle) to either heat or cool. The basic system of a heat pump was first used in commercial application about World War I with the introduction of the gas-absorption refrigerator.

### *Manufactured homes*

The offsite construction of entire houses is a more striking form of prefabrication. The technique of prefabricating panels and walls for homes has been used sporadically for generations. However, home manufacturing came into widespread use in the period following World War II. Home manufacturers now produce a package of precut, preassembled components of the shell or major structural elements. The home purchaser pays additional costs for land, site improvements, interior furnishings, fixtures, etc.

Home manufacturers produce a variety of housing types, including single-family detached houses, row houses, and garden apartments. Of the home manufacturing industry's production in 1967, 70 percent went to the construction of single-family homes and 30 percent to low-rise garden apartments. Single-family dwellings generally range in size from 980 to 2,000 square feet of enclosed living space.

Frame construction is the predominant form of manufactured homes. A few firms are, however, attempting to use other materials. For example, precast, load-bearing concrete panels have been used by firms in California, Arizona, New Mexico, Texas, and Florida. Other firms are experimenting with fabricated brick panels, extruded asbestos cement panels, and aluminum plastic sandwich panels.

Several manufacturers sell directly to the consumer, but the customary practice is for the manufacturer to sell to builder-dealers at the local market. Local builder-dealers receive supporting services from the manufacturer, including assistance in site design, land acquisition and improvement, financing through subsidiary acceptance corporations, and administration. Crews and equipment to perform onsite erection of the prefabricated home package are also provided by the manufacturer in some instances. The average franchised builder-dealer sells from 10 to 20 houses per year. Only about 4 or 5 percent of this industry's annual output is sold directly to the consumer, particularly in small towns and rural areas.

Home manufacturers, builder fabricators, and component fabricators are generally small-scale operators as compared with many other manufacturing concerns, but tend to be larger and have more regular employees than conventional builders.

Apart from a few firms that market and distribute their products across the Nation, the home manufacturing industry is, for all practical purposes, based upon regional manufacturing-distribution systems. Most home manufacturers operate one or two plants. Their market is generally limited to a 300-mile radius of their point of production. Some producers have attempted to obtain national distribution, but they are dependent upon regional plant operations.

*The costs of prefabricated houses and components*

Manufactured homes vary substantially in price reflecting differences in size, style, level of amenity, etc. Manufacturers of homes generally quote prices FOB factory. Transportation and erecting fees are added on, depending on distance and house size. The total selling price to the consumer, of course, will also include land and site improvement costs and dealer's fees. As an example of the price structure, one manufacturer provided the figures shown in table 1.

Table 2 presents cost estimates for a 1,000-square-foot house assuming various construction methods in Toledo, Ohio, which is a high-cost area. The figures assume no code restraints. The figures for conventional construction are for a small-scale builder of about 12 houses a year.

As the table indicates, site costs, including footings, foundations, and basement slabs, are identical for the three houses. Major differences arise, as expected, in construction costs. Considering shell and frame, mechanicals and appliances as a group, conventional construction costs \$9,855, partial fabrication \$9,367, and total fabrication \$8,237. Only \$530 is required for onsite work (erecting the sections and connecting the plumbing and heating systems) in the total prefabrication process. Other savings on the totally manufactured home are a result of eliminating interim financing and reducing the construction and site costs on which other charges—such as sales commissions, points, closing costs, and profits—are based. Thus, in the case of the sectionalized house, a \$1,618 re-

duction in construction costs, combined with a major saving of time, results in a \$3,333 reduction in sales price.

The Commission has also collected cost data from other industrialized housing manufacturers. They indicate that in the upper Midwest, an all-weather, single-family dwelling unit of approximately 1,000 square feet can be built and delivered to the site for approximately \$4,000, about \$1,000 of which represents the margin to the manufacturer for profit, overhead, and selling cost. Freight is approximately \$100. The costs at the site for foundation, painting, finish, carpentry, site improvements, electrical and plumbing subcontracts, permits, crane rental, etc., add about \$3,500. The local builder representative adds about another \$4,000 to the selling price for advertising, other sales costs, closing costs, points, interest, and profit, making a total sales price of about \$11,500, exclusive of land.

*Cost advantages*

Reductions in costs through offsite construction techniques are attributable to a number of factors. *First*, labor costs per unit of output are reduced. In strong trade union areas, switching from traditional craft workers to industrial workers generally results in lower hourly wage rates. Further, onsite construction requires a complete trade skill and, correspondingly, a high hourly wage, especially where union labor is involved. When the bulk of the work is done in the factory, skills can be more finely divided and a lower average rate results. Where craftworkers are not unionized, as is the case in many non-central-city areas, the switch from craft to industrial workers may actually result in higher hourly rates. Even in this situation, however, labor costs per unit of output can be reduced, since prefabrication provides many possibilities for man-hour reduction through the use of power driven machinery, greater specialization, and repetitive operations.

*Second*, since a much larger proportion of the work is done under cover, less time is lost and less cost incurred because of bad weather. De-

TABLE 1.—PRICE COMPONENTS OF MANUFACTURED HOMES PRODUCED BY A LEADING MANUFACTURER

Model	Size gross area square foot	Factory price to buyer	F.o.b. factory price dollars per square foot	Maximum delivery cost <sup>1</sup> dollars per square foot	Foundations and utility connections <sup>2</sup> dollars per square foot	Erect at site dollars per square foot	Total cost erected dollars per square foot
A-----	960	\$9,724	\$10.13	\$0.19	\$1.03	\$0.35	\$11.70
B-----	1,175	9,867	8.40	.17	.95	.35	9.87
C-----	1,435	10,610	7.39	.13	.52	.35	8.39
D-----	1,633	14,526	8.89	.11	.89	.35	10.24
E-----	2,199	17,683	8.07	.08	.74	.35	9.24

<sup>1</sup> \$0.60/mile, maximum economic distance is 300 miles.

<sup>2</sup> Estimated average.

Source: Data submitted to the Commission by the manufacturer.



TABLE 2.—ESTIMATED DEVELOPMENT COSTS FOR COMPARABLE SINGLE-FAMILY HOUSES OF CONVENTIONAL CONSTRUCTION, PARTIAL FABRICATION, AND TOTAL FABRICATION

Cost components	Conventional construction	Partial fabrication <sup>1</sup>	Total fabrication (sectionalized) <sup>2</sup>
Land:			
Acquisition.....	\$2,300	\$2,300	\$2,300
Lot preparation and excavation.....	289	289	289
Sewer line to street.....	90	90	90
Concrete-garage, porch, walks, drives, steps.....	560	560	560
Finish grading.....	50	50	50
Landscaping.....	75	75	75
Subtotal.....	1,064	1,064	1,064
Total.....	3,364	3,364	3,364
Footings.....	192	192	192
	704	704	704
	360	360	360
Total.....	1,256	1,256	1,256
Framing material or package.....	3,100	5,245	7,707
Field carpentry.....	1,560	675	260
Roofing.....	228	228	( <sup>3</sup> )
Siding.....	338	( <sup>3</sup> )	( <sup>3</sup> )
Subtotal.....	5,226	6,148	7,967
Floor and underlayment.....	530	530	( <sup>3</sup> )
Drywall.....	571	571	( <sup>3</sup> )
Painting.....	600	600	( <sup>3</sup> )
Ceramic tile around tub.....	108	108	( <sup>3</sup> )
Subtotal.....	1,809	1,809	( <sup>3</sup> )
Heating.....	580	580	95
Electrical work and fixtures.....	530	530	( <sup>3</sup> )
Plumbing (1 bath).....	1,050	300	175
Subtotal.....	2,160	1,410	270
Kitchen cabinets.....	500	( <sup>3</sup> )	( <sup>3</sup> )
Appliances.....	160	( <sup>3</sup> )	( <sup>3</sup> )
Preliminary costs.....	230	230	230
Contingency.....	100	100	100
Supervision and overhead.....	250	250	250
Interim financing.....	800	780	( <sup>3</sup> )
Sales commission.....	1,000	975	850
Mortgage points.....	1,000	975	580
Closing costs.....	500	488	425
Builders profit.....	1,800	1,755	1,530
Subtotal.....	5,680	5,553	3,965
Sales price.....	20,155	19,540	16,822
Savings versus conventional.....		615	3,333
Percentage.....		3.1	16.5

<sup>1</sup> Partial fabrication differs from conventional construction in its use of pre-assembled wall panels.

<sup>2</sup> Total fabrication consists of factory production of entire housing sections.

<sup>3</sup> This item, or part of this item, is included in "Framing Material or Package".

<sup>4</sup> Total fabrication permits preclosing. No interim financing needed.

Source: Data submitted by the manufacturer.

lays add directly to the costs of interim financing. Uncertainties caused by the vagaries of the weather reduce the ability to make accurate judgments about the proper timing of material shipments, increase rehandling, and cause standby time. Labor productivity is reduced where workmen must perform in wet or cold weather. Moreover, the wage rates of the construction industry now reflect the likelihood of interruptions due to weather conditions. If this likelihood is eliminated by moving the work indoors, future wage rates can begin to reflect added job security.

*Third*, and in addition to the time saved by eliminating interruptions due to weather, the prefabrication process itself can save a great deal of time. Building a single family house by conventional methods, for example, may take from three to six months; building by prefabrication can be a matter of weeks or even days. The prefabricated house still requires a certain amount of onsite work. A foundation must be prepared; water, sewer, and electrical connections must be made; and the house components must be assembled. Standardized procedures, however, simplify onsite assembly; and a small crew can easily assemble many such structures in 1 or 2 days. Onsite erection fees can thus be held to a minimum.

#### *Obstacles to the use of prefabrication*

Despite the apparent advantages of prefabrication techniques, companies engaged in home manufacturing and offsite construction of components face a number of important problems, most of which are unrelated to any technological weaknesses. The most important are the following:

*First*, home manufacturers report major marketing problems. Prefabrication is seen by many as a "gimmick." Many potential buyers also believe manufactured homes are aesthetically undesirable or structurally unsound, even when this is clearly not the case. The picture of a group of standardized dwelling units comprising a monotonous community is understandably abhorrent to home buyers; and this is the picture which many Americans associate with prefabricated houses.

The unsavory image which many have of prefabricated homes has been proved erroneous where care has been taken in house and site design. Lafayette, Ind., a city of 55,000 where the main plant and home office of one major producer is located, is a good illustration. Over the years, some 4,000 prefabricated homes have been built and erected in this city and now house approximately one-quarter of the population. The general appearance of Lafayette is superior to that of the average small American city. Its residential sections are pleasing and harmonious, and provide living proof that prefabricated housing need not mean deadening uniformity.

The working class town of Romeoville, a few miles northeast of Joliet, Ill., also illustrates that industrialized housing can be equal to or superior in aesthetic quality to conventional housing. The houses there are virtually all prefabricated and within a fairly close price range. They are not only pleasant and convenient to live in, but afford accommodations which cannot be matched locally at the prices charged. The community as a whole makes a better ap-

pearance than most other towns in the State.

*Second*, problems of building codes and other necessary product approvals plague both the home manufacturers and the makers of preassembled components. In far too many jurisdictions, various preassemblies are rejected outright. In others, inspection methods effectively exclude them. If electrical connections are installed inside preassembled panels, for example, they are subject to the possible demand of building inspectors, who often represent either local craft or building interests, that they be taken out and locally installed or that a panel be removed to permit inspection at the site. Costly delays and alterations can result.

These problems are by no means unique to prefabricated products. Even where the most high-minded men and motives are involved, approval for new products and processes is a grueling affair. But the special problem posed by offsite assembly appears to be the need for inspection at the time assembly takes place rather than at the time the component is installed at the site. In some jurisdictions procedures have been established which allow inspection at the place of assembly. Approval is then evidenced by a stamp which later can be accepted by the onsite inspector. But the exclusion of preassembled components remains a serious problem in many localities.

Perhaps even more significant, though not precisely measurable, is the deterrent effect of existing code restraints on the development of new preassembled components and houses. Investors are understandably reluctant to expend large amounts on research and development when they fear that even technically successful innovations will not be allowed to reach the potential market.

*Third*, there is the problem of transportation costs for heavy or bulky items. Where construction takes place offsite, assemblies must be transported to the site for erection. Where the parts are heavy and the distance great, this cost can be crushing. Transportation costs have been a major obstacle to the use of prefabricated concrete construction, an otherwise promising technological advance. In frame construction, the problems are much less burdensome, but they have the effect of limiting the geographical market which a factory can economically serve. Generally speaking, home manufacturers do not find it advisable to extend their sales area beyond 300 miles from the factory. If other problems of marketability could be overcome, such a limit would not appear to be a major obstacle to a profitable scale of production. With limited marketability, it is.

One major effect of all of these obstacles is to severely limit the scale at which prefabricators

must operate. The advantages and prospects of large-scale housing production—on and offsite—are considered later. Here, however, it should be noted that, in the view of many, the future success of prefabrication—with existing technology and with technologies yet to be developed—depends on a high volume of production and sales. The major advantages of industrialization require that capital costs be spread over a large number of units of output and that production be sufficiently large and constant to allow workers to operate on a production line basis.

If production and sales are low, the overhead cost per unit will be high. And it is upon this rock that so many prefabricated housing ventures have floundered. If only a few scattered sales are obtained, machinery stands idle most of the time, workers lack steady jobs and tend to leave, and unit costs are high. With building so decentralized between tens of thousands of contractors and subcontractors, it is at present almost impossible to obtain the volume of orders necessary to reduce costs, improve quality, and encourage additional research and development.

#### *The industry record*

To date, the profit record of U.S. home manufacturers has not been inspiring. One of the largest companies in the industry, for example, had sales of 23,000 units in 1959; last year's sales were 15,000 units, a decline of almost one-third. Earnings on sales in 1967 were only one-tenth of 1 percent on investment. Many other companies, usually much smaller, have experienced similar or worse profit margins, and many have gone under. Those companies which have stayed in business, including the very largest, are often able to do so only because of profits on land and home financing.

The limitations confronting the home manufacturer appear to be less serious in the case of production and technology than in the matters of site location, design, local zoning or code restrictions, marketing, and sales.

#### *The future*

Prefabricated components, such as roof trusses and plumbing trees, have been an important factor in the industry in recent years, and additional advances in the technology of such components are to be expected. Conventional builders recognize their value and are among their leading advocates. Unfortunately, local building code officials have not given them their wholehearted support and continue to block their use in far too many places.

Prefabricated or industrialized houses have been less enthusiastically received, though they have achieved important cost reductions. They continue to encounter major problems of mar-



ketability and institutional resistance. Early and, in some cases, continuing lack of attention to the importance of design—both in the structure itself and in site layout—has plagued the industry. For a variety of reasons communities and building officials often resist the introduction of such structures. In addition, marketing activities, vital to the success of the industry, have suffered either from being left in the hands of the producers, who have had little experience in the industry, or from being placed in the hands of alleged experts in home building who in reality have been no more expert than the producers.

The city of Chicago is now involved in a dramatic program to use manufactured homes for moderate-income families. During the summer of 1968, the city negotiated an agreement with a major home manufacturer to factory prefabricate homes at an expected rate of 2,000 a year, employing an estimated 165 men on a full-year basis. Certain building code provisions were waived. Union cooperation was obtained through the company's agreement that the Chicago factory would be a union shop and that erection would be supervised by union men who would also train neighborhood labor. The unions, for their part, agreed to be more flexible on jurisdictional claims and work practices. In addition, six leading building trade unions agreed initially to contribute one-third of the cost of constructing the new plant, which was estimated at a total of \$2 million. A number of industries pledged another third, and a group of insurance companies the remainder.

The houses are to sell at a price ranging from \$11,500 to \$14,500, thus opening up the market to those in the \$4,500–\$5,500-a-year income bracket. Down payments are expected to range from \$200 for a two-bedroom house to \$400 for one with four-bedrooms. Stoves, refrigerators, furniture, and even carpeting are included in the price.

#### *Mobile homes*

One form of prefabricated dwelling unit which has achieved amazing success in recent years is the mobile home. It has emerged as a major source of housing within a single generation.

More than 4,650,000 people now live in mobile homes, 80 percent of which are located in mobile home parks. There are now over 13,500 such parks in the United States, each containing an average of 60 to 75 homesites. New parks are being developed at an estimated rate of more than 1,000 a year. These newer areas normally are planned for more than 100 mobile homes.

In the post-War period, about 2.5 million mobile homes have been produced. According to

the Mobile Home Manufacturers Association, production in recent years has grown rapidly, with annual production in 1967 of slightly over 240,000 units, four times that of 1947. Table 3 shows figures on annual production for 1962–1967.

TABLE 3.—ANNUAL PRODUCTION OF MOBILE HOMES IN THE UNITED STATES, 1962–1967

(In thousands)	
Year:	Approximate number produced
1962.....	120.5
1963.....	153.9
1964.....	195.9
1965.....	222.0
1966.....	222.7
1967.....	240.4

Source: Mobile Homes Manufacturers Association.

In 1967 mobile home production equalled 23 percent of all single-family nonfarm housing starts.

The importance of mobile homes in the overall housing picture is suggested not merely by their growing numbers but also by the market they serve. While they are still bought by many people as second homes or vacation homes, they are today an important source of primary residences. The largest market for mobile homes, accounting for 43 percent of the total, is among the under-34 age group. The largest portion of this group consists of newly married couples who have limited space needs and find that the average monthly payment of \$150 or less is within their budget, especially when additional payments are not needed for furniture. Another important segment of the market is for old people who do not want the cares of a conventional home and whose children have grown up and are living elsewhere. When all this can be combined with retirement in a warm or moderate climate, it can be especially attractive.

Mobile homes grew out of the earlier "trailers"—small, simple bedrooms-on-wheels which could be attached to an ordinary automobile. Trailers were truly mobile and were used primarily by vacationers on long distance drives to avoid dependence on hotels. As they grew in popularity, "camps" were developed in vacation and tourist spots for the temporary quartering of these trailers. Minimum services, such as water and sanitary facilities, were provided, but little else.

After World War II, builders of trailers began to recognize the potential of their product in helping to meet the Nation's large backlog of housing needs. The "trailer" became a permanent abode; and with the change came a new name—"mobile home." Even this name is a misnomer, for it has been estimated that more than

60 percent of all mobile-home owners have never moved the unit they currently occupy. The Mobile Home Manufacturers Association reports that the average stay in one location by mobile-home owners is 58 months, which is about the same as for owners of conventional housing. About 70 percent of the more than 2 million mobile homes produced since World War II have been used as permanent dwellings.

The mobile home of today is far different from its predecessor travel trailer. From their original 30 by 8 foot dimensions, new mobile homes were built in much larger sizes. Generally limited to 12 feet in width by State highway regulations, trailers have been substantially lengthened, so that in 1967, 84 percent of all units produced measured at least 12 by 60. Moreover, a number of manufacturers have begun producing units which can be joined with another unit, or can be otherwise expanded at the site, thus allowing sizes of up to nearly 1,500 square feet. And more imaginative use of space has resulted in increased living areas within a given size unit.

Changes have also taken place in mobile home parks. In addition to water and waste disposal facilities, the modern park provides underground electrical connections, landscaping, paved streets and sidewalks and, in some cases, recreational facilities of various kinds. Investors have found that mobile home parks can not only produce satisfactory returns from current rentals, but can also provide means of speculating in land. Since permanent above-ground facilities are minimal, land can be readily converted to more intensive development when the market permits.

While perhaps still not the vine-clad, rose-embowered cottages of which the returning World War II GI dreamed, mobile homes can provide decent shelter with some privacy and many or most of the amenities which people associate only with conventional houses.

The production of mobile homes is achieved entirely offsite. The construction consists of a wood wall, floor, and roof members, resting on a steel frame which is supported at one end by wheels and at the other by a trailer hitch assembly that can rest on the ground. Most units are covered on the outside with aluminum. Interior walls are usually covered with natural finished wood panels.

Some of the advantages of prefabrication—lowered unit labor costs, elimination of vandalism and bad weather interruptions, etc.—are available to mobile home manufacturers. Partly for this reason, some manufacturers are able to arrive at construction costs as low as \$6-\$7 a square foot, where costs include complete furnishings.

While the life of a mobile home can vary substantially depending on make and model, climate and the care taken by its occupants, some indication of its expected life is suggested by the typical financing period of 7 years, as compared to 20 to 35 years for conventional construction. And unlike many houses, the mobile home loses a good deal of its resale value at the end of a relatively short period.

The cost of the average 12- by 60-foot unit is \$5,700, fully furnished and equipped. Some unfurnished units can be purchased for \$4,000. The larger units of more than 1,000 square feet in floor area range from \$8,000 to \$12,000.

The buyer of a mobile home can finance it as he would his automobile. Although a third of the purchasers pay cash, the majority of the purchases are financed with down payments ranging from 20 to 30 percent of sales price. The usual length of financing is 7 years, with some taking as long as 10 years. This short term, as compared with the much longer term for conventional home mortgages, and the need to pay rent on the site, means that monthly costs are not significantly cheaper than those for conventional housing. Table 4 shows a typical monthly cost breakdown for the mobile home owner, as supplied by the Mobile Home Manufacturers Association.

TABLE 4.—ESTIMATED MONTHLY COST OF OWNING AND OCCUPYING THE AVERAGE MOBILE HOME

Debt service (principal and interest)-----	\$76
Rent (site)-----	\$35- 40
Utilities-----	20- 30
Maintenance-----	5
Garbage collection-----	2- 4
Taxes-----	3- 4.15
Total (rounded out)-----	140-160

Source: Mobile Homes Manufacturers Association.

In 1966, 220 firms were producing mobile homes in 354 plants throughout the country. Ten companies, reporting sales of over \$20 million, are now publicly held corporations. About 30 percent of total production is concentrated in the "Prefab Belt" discussed earlier. There are about 7,000 retail outlets selling mobile homes throughout the Nation.

#### *The future*

Major obstacles are still encountered by the industry in overcoming the old "trailer" image and meeting demands of building inspectors. Perhaps even more important than building codes in limiting the use of mobile homes are zoning ordinances, which either exclude such dwellings entirely or force them to locate in industrial areas.

While mobile homes in their present form will not become the standard American dwell-



ing unit, it seems likely that the market will continue to expand and that they will grow in importance both as second homes and as primary residences. To date, this growth has been so rapid that some companies have been unable to keep up with demand. As a result, many companies have not had the time nor felt the need to invest in basic research and development and to improve substantially on existing production techniques. Thus, while they have been able to achieve certain economies associated with prefabrication, their techniques remain less efficient than might be expected. The production line approach has only begun to be adopted, and many mobile home factories are in reality more like handicraft shops.

New uses for mobile homes and extensions of mobile home technology are only now being explored. One important aspect now being examined is the vexing problem of relocation. As noted elsewhere in this report, temporary housing is in urgent demand during large-scale urban renewal and neighborhood rehabilitation efforts, as well as during highway construction and other public works projects. Vigorous housing code enforcement can also lead to temporary displacement of households where adequate replacement housing does not yet exist. Even where demolition or rehabilitation is accompanied by plans to relocate displaced households in the same location once new housing is built or rehabilitation is completed, long intervals are required before such a return is possible; and past experience suggests that only rarely do those forced to move come back.

Atlanta is now using mobile homes as temporary quarters for families displaced by urban renewal. Once the project is completed, the families would be able to move back into new low-income housing built on the site of their former residences. The mobile homes can then be used in connection with another project requiring temporary relocation.

Other important potentials for mobile home technology are being explored. Much of the progress in the past has been directed toward improving the use of limited space in the mobile home and finding ways of increasing its size. More recent experiments have been concerned with use of mobile homes as multifamily structures, primarily through various stacking techniques. Two-story row houses, for example, have been built by stacking. Another logical extension of mobile home technology, of course, is the construction of nonmobile sectional houses; and some mobile home manufacturers have been experimenting with such houses, which are factory built and factory assembled and then transported to the site on flat-bed trailers.

### *Large-scale production*

Whether construction be by conventional on-site processes or by prefabrication, there is much evidence to suggest that a crucial determinant of costs is the scale at which building takes place. We have already noted the importance attached to a minimum volume of production by potential and actual experimenters with new construction techniques. The substitution of capital for labor, and particularly the use of large power tools and equipment, requires some minimum scale of operations. Unlike many workers in the construction trades, equipment cannot be employed for one job and then dismissed. The use of more equipment means greater fixed costs, which must be spread over a sufficiently large number of units of output in order to make for economic production.

There are many other important opportunities for cost savings which large-scale production makes possible. *First*, large-scale production permits savings on material costs through volume purchases. The large buyer can break through the outer ring of retail prices and buy directly from wholesalers or manufacturers, and can obtain quantity discounts. Such savings can amount to 15 to 25 percent of the cost of materials purchased. Moreover, large-scale builders are often in a position to buy at the most propitious moment in view of market conditions. Savings are possible on services as well as materials. Title and mortgage companies, lawyers and others are more likely to give favorable terms to the large builder, who is able to provide them with a large volume of business arising out of a particular project or projects.

*Second*, the large builder is in a better bargaining position vis-a-vis union and government officials. By being in a position to offer a large volume of continuous work, he is far more able than a smaller builder to negotiate a project agreement which includes more efficient work practices. Similarly, both as a result of added knowledge and of his importance in the overall construction picture, he can often cut through the bureaucratic and political red-tape which plagues the industry.

*Third*, the large builder can enjoy the benefits of an ongoing, integrated organization, providing its own specialized services on a salary basis rather than on a basis of fees. The cost of services of lawyers, designers, accountants, architects, and engineers can therefore be significantly reduced.

*Fourth*, the firm producing on a larger scale can accommodate greater specialization among its employees and greater standardization of materials and work practices. Up to an optimum size, the larger the work force, the more the

work can be subdivided. Men can specialize in those things which they do best, and can perform their repetitive tasks more quickly and with greater skill.

#### *A large-scale development*

As the facts presented earlier show, few builders of conventional single-family housing operate at a scale exceeding even 100 units per year. Only a handful produce more than 500 units per year. The experience of the few large-scale builders indicates, however, that substantial cost reductions are being achieved. The very largest builders of conventional houses have been able to bring direct structural costs down to as low as \$6 a square foot in some cases. Table 1 in the preceding chapter shows structure costs of \$6.24 per square foot and construction costs (selling price less site costs) of \$10.20 for a project of one large-scale builder. Similar cost savings can be realized by builders of multi-family structures. The large-scale builder, whether of single-family or multifamily units, uses a system of mass production at the site. Great management skill is applied to scheduling and organizing work into a continuous, highly specialized construction process.

One large home builder, for instance, operates as follows:

In the case of single-family homes, the building unit is not the single house but a cluster of similar houses ranging from seven to a dozen. These are substantially in the same price range but with a sufficient variety in design so that there is no monotony of appearance. Harsh rectangles are avoided in the laying out of streets. The effort throughout is to decrease the amount of traffic which goes by the houses.

The first step in actual construction is the laying of a concrete slab which serves as the foundation. Full basements are avoided, but partial ones for storage are often included. Connections are made with the water and sewer pipes which serve as units in the respective distributing and collecting functions and which can be located either in the front or rear of the homes. Wherever possible, the basic slabs contain some of the basic electrical connections.

While this is going on at the site, important changes in scheduling and distributing the needed material are taking place in the local administrative offices, and in the warehouses and assembly yards. A master list has been prepared for each house which identifies each building piece to be used, the number of units required of each, and the sequence in which they are to be used. Then a truck is loaded in the warehouse with the total number of units of piece 1 in sequence A. An assembly crew is set up for each house in the cluster and is as-

signed a station around a circular assembly line away from the site. The truck drops at each station the number of units of piece 1 that are required by that type of house. This is followed by another truck which does a similar job for piece 2, and so on. At the end, the assembly crew at each station has the required number of units of each piece within the required sequence. This becomes the "package" of prepared frame materials for the first house in the cluster, which is then transported to the site of the house by truck. The "packages" are deposited near each of the prepared slabs. The carpenter crew then begins the erection of the frame with baseboards, studs, ridge poles, trusses, etc. After the carpenters have finished this work with the first house, they move on to the nearby second house where they repeat the same process with similar but somewhat differing combinations of pieces. The crew of carpenters then moves house by house down the line.

In their wake comes the crew which installs the pre-cut and prehung doors and windows, each generally containing the needed glass. They also move in sequence behind, and press fast upon, the carpenters. Then comes a crew which puts in the sidewalls, generally in the form of a "hardwall" often composed of gypsum or masonite. This crew does its work and then moves on, treading fast upon the heels of the previous crew. Close behind come the painters, working with spray guns, broad brushes with long handles, etc. The plumbers install a previously assembled plumbing or bathroom "tree." They are followed by those who lay floors of the bathroom and other rooms. Then come the electricians (although they sometimes precede the plumbers) who lay the wiring and make the connections. The heating apparatus is put in and, where air conditioning is used, those facilities are installed as well. The stove and the refrigerator are installed. If wall-to-wall carpeting is included in the final house to be delivered, that is put down.

The land in the cluster is also developed. Grass is sown and watered. Shade trees and shrubs are planted in front of each house, and fruit trees in the rear. The house owners can, of course, add to this on their own according to their tastes and income.

In the process, as the community grows, general community facilities can be started and enlarged. In this way each year's installment of families can be served while large investments in presently unneeded facilities are avoided. A shopping center including a grocery and a drug store is started first. Specialty stores can be added as the community grows. It is a good practice to have a generous mall or open space and dignified surroundings for the shopping



center, for this necessarily becomes the social center for the community. In addition the community will need elementary schools and playgrounds, including swimming pools, tennis courts and ultimately a golf course. A library can be added as the need develops, and space should be reserved for a local park. In some cases, especially in the early period, these are donated by the builders. Later, as the community gets on its feet and acquires a tax base, the facilities are sold at cost, with the developer merely charging his original purchase price for land without taking any increase in land values.

The principle behind all this is obviously that of applying the moving assembly line to the peculiar nature of building. Instead of the factory system where men are placed at stationary points along the assembly line with parts and materials flowing by them for assembly in sequence, the house is, of necessity, stationary. The various groups of specialists do their work and then move on to repeat the same process elsewhere. Men are in motion, while the materials and parts to be assembled are relatively stationary once they have been deposited on the sites.

#### *Large-scale multifamily dwellings*

The advantages of large scale are not, of course, limited to builders of single-family houses. Substantial cost savings have been effected by producers of large, multifamily projects. An important example is the work of the United Housing Foundation in building cooperative housing in New York City.<sup>1</sup> Rochdale Village, a project of the foundation, is the largest completed cooperative apartment development ever built in this country.<sup>2</sup> Located in Queens, Rochdale Village contains 5,860 cooperative units in 20 buildings, with a total cost of \$100.2 million under the New York Limited Profit Housing Law.

The excellent cost results obtained by the foundation may be seen in table 5, which compares the costs of Rochdale Village with costs of management cooperatives built under the FHA 213 program.

At \$9.78 per square foot of residential construction, the project is impressive. It should be kept in mind that the buildings are all 14-story high rises located in a high construction cost area.

Part of the cost saving story of Rochdale Village is based on the nonprofit nature of the builder sponsor. The United Housing Foundation charged fees of less than 2 percent of total development cost, only one-tenth of the amount

TABLE 5.—COST COMPONENTS OF SELECTED FHA 213 PROJECTS<sup>1</sup> AND ROCSDALE VILLAGE<sup>2</sup>

Component	FHA 213			Rochdale Village
	High	Median	Low	
Total development/unit.....	\$41,269	\$27,129	\$15,073	\$17,098
Structures/unit, residence, other <sup>3</sup> ....	\$31,391	\$21,031	\$9,604	\$12,678
Area/unit, square feet.....	2,004	1,376	1,202	1,290
Residential building cost/square foot.....	\$16.58	\$15.07	\$10.71	\$9.78
Site cost/unit.....	\$4,318	\$2,796	\$2,375	\$1,334

<sup>1</sup> Construction dates and location: Fiscal 1962-66, New York City, Miami, San Francisco, Los Angeles.

<sup>2</sup> 1961-65, Queens, N.Y.

<sup>3</sup> This figure includes the costs of constructing a powerplant and shopping and community centers to serve Rochdale Village. The powerplant includes generating equipment and provides 100 percent central air conditioning throughout all buildings in this development. The estimated cost savings on electricity alone is \$220,000 per year. Income from the shopping centers is used to offset part of the operating costs and to hold down the carrying charges for each apartment. The cost breakdown for these additional facilities is shown in the following table:

SELECTED COST ITEMS FOR ROCSDALE VILLAGE

Item	Cost per apartment	Cost per rental room	Percent
Land.....	\$1,334	\$295	7.8
Residential buildings.....	12,678	2,805	74.2
Powerplant.....	2,030	449	11.9
Shopping centers.....	707	156	4.1
Community center.....	349	77	2.0
Total.....	17,098	3,782	100.0

permissible under the law. The fees on the FHA 213 projects represented in table 5, on the other hand, ranged from a low of 9.8 percent to a high of 16.9 percent. In addition, it is generally recognized that the foundation personnel directing the project are highly dedicated and competent. But, clearly there were substantial cost reductions due to the very large scale of the project. The builders, for example, attribute significant savings to quantity purchasing. Moreover, the repetitive nature of much of the work helped reduce construction costs and fees. Each of the 20 buildings is identical. While this may be questioned by some on esthetic grounds, it does permit costs to be reduced in a large-scale project. Furthermore, the tri-core building design is a relatively low-cost form of high-rise construction.

The large scale of the project, combined with the civic importance of the foundation, also enabled savings to be realized in labor and other costs. With its close union ties,<sup>3</sup> the foundation was able to negotiate a project agreement which included efficient work practices with the craft unions involved in construction. Time and money were saved when the requirement of a performance bond was waived; and Government redtape was slashed throughout the construction process.

<sup>3</sup> See Part 11, Chapter 4.

<sup>1</sup> For a more complete description of the make-up and activities of the United Housing Foundation, see Part 11, Chapter 4 and the Commission hearings, Vol. IV.

<sup>2</sup> Co-op City, which is now under construction in the Bronx, also built by the Foundation and costing an estimated \$293 million, will be the largest cooperative when completed.

### *The future*

Diverse code standards and finance practices within a market area, problems of land assembly, resistance to large-scale developments by local communities, and the uncertainties of the market continue to be serious impediments to undertaking large-scale, long-term projects. Nevertheless, it seems highly probable that the scale at which building takes place will grow. As the Nation begins to appreciate the dimensions of the task before it in fulfilling national housing goals, an atmosphere far more conducive to undertaking large-scale projects than the present one should develop among present builders and companies not now willing to enter the market. Improvement in codes and assistance and encouragement for large-scale developments will be important. Equally or more important, however, are the creation of a stable mortgage market and the adoption of public policies to allow long-term planning and commitments for housing programs.

#### POTENTIAL COST REDUCTIONS THROUGH ADVANCED TECHNOLOGY

Thus far in this chapter we have been discussing the cost savings attributable to various existing construction products and processes. There are many who believe that more ambitious departures from present patterns and major technological breakthroughs are the wave of the not-very-distant future. Engineering and architectural journals are filled with new ideas for revolutionizing the construction process and for applying advanced systems approaches to the problems of meeting the Nation's housing needs.

A vision of the future is necessarily speculative, and many judgments about the potential savings and advantages of the construction technology of tomorrow remain acts of faith. Talk of major technological breakthroughs is not new; it has been part of the just-around-the-corner school for 40 years. This is not to say that progress has not been made in construction technology. The growing use of prefabricated components continues to be significant. While much has been done to industrialize both the product and the process, the revolutionary transformation of construction has, in fact, not occurred.

### *The problems*

The cost of research and development, tooling, production, and marketing is so great that it is difficult to expect companies to undertake major programs of innovation purely on a basis of speculation. This is particularly true in an industry where each project has been regarded as a custom situation. For example, the peculiar nature of the competitive bidding

process in this industry has made it difficult, if not impossible, to use innovations effectively. New ideas have had to be available from at least two other manufacturers before they could legitimately be incorporated into design. This procedure makes it very difficult to bring major innovation to the market.

Another major obstacle to the introduction of new products has been the relatively small size of traditional individual building programs. The learning process makes for increased costs. Unless one has substantial markets for the amortization of these learning costs, initial projects tend to cost more than the eventual use of a system would require. However, it is difficult to find the people willing to pay more for a given project on the basis that future projects will be cheaper. Industry is reluctant to pay these costs, because there is no assurance that future designs will use the products which have been developed. Because of these and other constraints on volume production, it is important to develop a systematic approach which provides for research, development, tooling, production, and construction of buildings in an organized way. An effective method must be provided for the delivery of the new technology. The technology lag in construction is due primarily to the lack of significant markets and mechanisms for proper introduction of the work. This has resulted in the financial failures of many new approaches, which in turn has reduced the interest of companies in making further investments.

Problems of codes and restrictive building practices also contribute to the difficulties. Potential innovators are understandably reluctant to undertake major research when they fear that technically successful results will be unmarketable or of only limited marketability because of such institutional factors.

In some areas codes are being upgraded. Developments toward performance specifications, as opposed to material specifications, are becoming more evident. The four basic national codes are extending their areas of influence and it is hoped that in this respect the Commission's recommendations for more objective standards and greater uniformity will provide the means for mass production methods to function. The basic codes do permit opportunities to deviate from specific material requirements if appropriate testing can be done, although localities have inordinate power to veto nationally accepted changes. The creation of markets which permit large-scale development programs on a feasible financial basis should afford the opportunity to finance these testing programs. The model cities program, for example, should provide an opportunity to rationalize code require-



ments within a variety of cities as a prerequisite for Federal funding and support for specific housing projects.

Organized labor has cooperated effectively with a number of building systems programs, and it appears that such cooperation can be continued and expanded in the future. There are two essential requirements for this cooperation: (1) that participation begin at the time that a program's objectives are understood, and (2) that the level of construction volume continue to increase, resulting in greater labor stability.

#### *Foreign experience with industrialized building systems*

Many experts in this country cite various European building operations as evidence of the success of industrialized<sup>4</sup> techniques. Problems arise in attempting to compare European and American costs and quality and in attempting to assess the transferability of foreign processes and procedures into the American institutional setting. Nevertheless, it is clear that much useful information can be gained from foreign experiences, and that such information can be important in attempting to develop cost-reducing construction techniques in this country.

Certain generalizations about European activity in "industrialized" building should help to place the subject in perspective:

*First*, it is clear that European experience with various prefabrication processes has been far more extensive and varied than our own. Approximately 40 effective industrial building systems are operating in Europe. Denmark alone, with a population of 4,750,000, presently builds 40,000 low-cost flats per year using industrialized techniques. In the United States, the equivalent production would be 1,600,000 units per year.

At the close of World War II, Europe's housing needs were even greater than our own. The pre-war depression and the war itself drastically curtailed production of housing. Moreover, many homes were destroyed in the war. The "industrialization" of building, which took place after the war, reflects not only this great need for new housing but also a recognition by the governments of the various nations of their major responsibility for closing the gap. Their massive intervention in the construction process—whether through direct public construction, as in Eastern Europe, or through large and continuing subsidies for privately built housing—opened the way for basic research and large-scale experiments with new building techniques.

<sup>4</sup> As in the United States, "industrialization" takes a variety of forms and degrees. In general, as used in this section, it refers to the use of components, sections, panels and modules constructed off-site.

*Second*, major efforts have been made in Europe to develop prefabrication techniques for multifamily dwellings, and concrete has been used extensively as a basic building material. Concrete construction generally takes one of two forms: (a) panel construction, in which load-bearing concrete walls are used along with precast or poured concrete floors and (b) modular construction, using precast concrete boxes.

*Third*, in the effort to catch up on the backlog of housing needs, many European countries have given little or no weight to esthetic considerations and to amenities. Repetitive and simple designs have allowed rapid and efficient production, but the product has often been drab and uninviting. More recently, efforts have been made to introduce variations in shape, color, and texture. In panel construction, for example, a variety of shapes and sizes can be produced by modifying the ways in which the panels are ultimately assembled on the site, without changing the factory process itself.

*Fourth*, as in the United States, institutional obstacles in Western Europe have been significant in slowing down the introduction of industrialized techniques. Union practices and building codes have been especially troublesome in a number of countries.

*Fifth*, while progress has been made toward producing lighter forms of concrete and other materials, transportation limits remain significant. Onsite factories have been employed successfully in a number of countries.

European industrialized techniques have developed in a variety of ways—organizationally, for example. There are client-specific and manufacturer-controlled component systems, capital-intensive designed for both factory and site fabrication. Three examples are noted below.

The *Colgnet* system is a French industrialized building system fabricated in highly sophisticated factories which utilize expensive precision casting machinery and techniques. The system consists of high-precision precast concrete floor, wall and exterior panels.

*SECTRA* is a French industrialized building system involving a sophisticated onsite construction process, as well as the use of prefabricated components. Demountable site formwork units with integral hot-water curing and aligning mechanisms are used for floor slabs and exterior walls, while interior partitions, staircases, ductwork, and plumbing are prefabricated.

The *5M* low-rise housing system is a derivative of the *CLASP* schools system, which utilizes factory-made components, developed as a package and site assembled. The system includes steel columns and joists, wood infill panels, and a variety of claddings.

Evaluating the cost savings of these experiences is extremely difficult. Even where relatively comparable systems exist for collecting data and assigning costs, enormous problems are encountered in evaluating levels of amenity and durability. What evidence we have suggests that certain European systems, when operating at sufficient scale, have realized significant cost reductions as compared with nonindustrialized construction in a particular country. Whether these systems would have produced such results in this country, given differences in onsite labor productivity, for example, is not clear.

#### CONCLUSIONS

There can be little doubt that prefabrication techniques and large-scale production (on and offsite) have produced cost savings in the past and should continue to do so in the future. Such savings are not merely theoretical; they have been proved. At the same time, no dramatic, industrial "breakthrough" has occurred in this country.

The production of new products for the construction industry, experimentation with new materials and new production techniques, and exploration of advanced systems approaches to buildings, should be encouraged. Every effort must be made to eliminate roadblocks consistent with protecting health and safety. In the short run the greatest savings will be realized through increased scale and the use of existing prefabrication techniques at large scale. In the long run, wholly new systematized approaches may be forthcoming.

In view of the fragmented nature of the present building industry and the institutional restraints on innovation, it is important that the government and public-spirited private organizations take action to encourage and promote research and experimentation. In the past such action has largely been lacking.

There is some evidence that a growing recognition of the Nation's staggering housing needs is producing a new attitude. Section 108 of the Housing and Urban Development Act of 1968, the Proxmire amendment, first proposed by the Chairman of this Commission in testimony on the act, directs the Secretary of HUD to undertake a program aimed at encouraging and testing new technologies in housing construction. The program provides for the Secretary to approve up to five plans, submitted by private or public bodies, which use new housing technologies and are appropriately designed. Recognizing the importance of experiments conducted at a scale sufficiently large to promote interest and to enable a fair evaluation of cost savings, the act provides that each plan be tested by the

production of at least 1,000 units a year for 5 years. These tests are to be conducted on Federal land, or other land on which local building regulations will not hinder the use of new technologies. The Secretary is to report to the Congress the results of such experiments at the earliest practicable date.

The Proxmire amendment is responsive to the long-standing claims of potential innovators that they must have a guaranteed market of 1,000 units a year to test their systems properly. It represents not only a program for testing five systems, but a clear expression of Congress' concern with construction technology. Unfortunately, HUD was not favorable to this provision of the bill, and its enthusiasm for the act was less than complete.

The Act *directs*, not merely authorizes, the Secretary to carry out this program. The Commission urges the Secretary to act with all due speed on this. It also urges private companies to submit plans and take vigorous roles in the competition. Here at last is the opportunity that so many organizations have sought, and their actions can now reflect their past statements of concern and ability.

Other encouraging signs have also appeared in recent months. HUD's "in cities" program is an attempt to employ new building techniques in some 20 cities participating in the model cities program. The Department of Defense has also exhibited an interest in experiments with new technologies in the military family housing program. Public officials, at all levels of government, have made statements expressing their interest and concern in the technological advancement of the building industry. This new atmosphere should help to encourage renewed efforts to explore and test the potential contribution of technological innovation to solving the Nation's housing crisis.

#### APPENDIX

##### SELECTED DATA OF EUROPEAN EXPERIENCE WITH INDUSTRIALIZED BUILDING SYSTEMS

Much has been said about the benefits of industrialized building in Europe, but few figures are available to judge actual performance. Differences in general price levels, accounting systems, and data collection and compilation make international comparisons extremely difficult.

The National Building Agency provided the Commission with a detailed report of experiences in the United Kingdom with industrialized housing and furnished additional material requested by the Commission. The material



gathered by NBA was based on data assembled by government agencies concerning publicly owned or sponsored housing. It reported that 40 percent of construction in the public sector used industrialized construction techniques as compared with 20 percent in 1964. The cost benefits of such construction techniques were found to be concentrated in housing of more than four stories.

Tables A-1 and A-2, provided by the NBA, give cost comparisons between industrialized building systems and traditional building practices. Table 4 is a comparison between the costs of conventional and industrial types of building in Great Britain between 1964 and in the first half of 1967. It should be noted that there are large fluctuations in the percentage of savings from time to time. Savings reached their peak when the use of industrialized building systems produced an average cost per square foot which was 9.5-percent cheaper than the construction costs of building projects using traditional techniques.

Table A-2 compares the cost data of four projects in the Manchester area, two of which were built by traditional methods and the other two by industrialized techniques. Scheme A, a project of 210 apartments using traditional methods, was built at an average cost per square foot of 121 shillings, 10 pence, excluding land, for an average dwelling of 499 square feet. This is \$14 to \$15 a square foot. A project built in the same year containing 428 apartments and using the Jespersen system, which originated in Scandinavia, produced a dwelling unit of 550 square feet at a cost of 91 shillings and 8 pence or about \$11, a reduction of about 25 percent from the conventional method.

A project containing 53 houses of two stories each, shown as traditional scheme C, was constructed at a cost of 66 shillings and 8 pence per square foot. But another development of comparable size and characteristics, using industrialized building systems, was constructed at a cost of 61 shillings, 11 pence or a reduction of 7 percent.

One of the most significant cost benefits attributed to the industrialized building systems was the reduction in construction time. The NBA made a comparison of the savings in financing for land and construction loans and found that a reduction in interest costs of 36 percent, which would mean a savings of 2.08 percent could be produced in the construction of a 50-unit project by reducing construction time 6 months, as shown in the following detailed example contained in the NBA's report:

#### EXAMPLE

Scheme of 50 units of accommodation.

Land purchase 600 per unit.

Construction, fees, legal and other costs, 3,400 per unit.

Interest rates: land 7½ percent; building 7½ percent.

(a) Calculation of capitalized interest for average scheme:	
Land purchase 30,000 at 7½ per annum for 21 months-----	4,134
Building work—half remainder 85,000 at 7½ per annum for 15 months--	8,101
	<hr/> 12,235 <hr/>
(b) Calculation of capitalized interest if construction time reduced by 6 months:	
Land purchase 30,000 at 7½ per annum for 15 months-----	2,953
Building work—half remainder 85,000 per annum at 7½ percent for 9 months-----	4,861
Total-----	<hr/> 7,814 <hr/>
Savings in interest-----	<hr/> 4,421 <hr/>
Scheme cost as (a)-----	200,000
Interest-----	12,235
Total-----	<hr/> 212,235 <hr/>

Therefore, saving represents 4,421 divided by 212,235 equals 2.08 percent.

The foregoing example assumes—

(i) That the precontract work takes the same length of time in (a) and (b);

(ii) That the construction time for 50 units can be reduced by 6 months;

(iii) That the overall building and fees costs are equal;

(iv) That there is a demand for the dwellings by the earlier date; and

(v) That it is physically possible to arrange the letting of tenancies immediately upon handover by the building contractor.

The following is an extract from the NBA material which indicates that additional cost benefits may be obtained through early occupancy of projects resulting from faster construction time with industrialized building systems.

#### EXAMPLE OF SAVINGS FROM EARLY OCCUPANCY

##### *Rent income through early occupancy*

A recent example in which potential savings were possible, concerned an NBA development project for Harlow New Town. Whilst the tender period of 340 single- and two-story dwellings was stipulated as 24 months the second lowest tenderer offered a 22-month contract. Subject to the dwellings handed over during the shorter contract period being occupied at a rent of £4 a week the client could obtain an in-

creased rent income of about £10,000 when compared with the stipulated contract period. The potential saving in interest charges on payments for work carried out but not completed could amount to between £500-£750 depending on actual rate of handover achieved. These sums represent about 1.0 and 0.05 percent, respectively, of the contract value. The difference between the lowest and the next tender was in fact greater than the potential savings offered and for this reason the lowest tender was accepted.

In this case the potential time saving between tenderers for system building was about 8 percent. When compared with traditional building, savings of up to 50 percent of a contract period are possible.

Another NBA project designed with speed of erection particularly in mind has a contract period of 18 months for 400 two-story houses. The first handovers are due to take place after 4 months with a planned rate of handover of 10 houses a week thereafter. It is estimated that to have built this project by traditional means would take  $3\frac{1}{2}$  years with a rate of handover of  $2\frac{1}{2}$ -3 houses a week.

The surveys conducted by Mr. Rothenstein<sup>5</sup> for the Commission found that industrialized building systems produced higher cost savings in countries on the European Continent than in the United Kingdom. Two building systems companies, Jespersen and Sectra, operating both on the Continent and in the United Kingdom, reported savings that were two to three times greater on the Continent than in the United Kingdom. Table A-3 gives the average number of man-hours for construction of 1,000 square feet of dwelling and indicates that more man-hours are required to produce housing in England than in the Continent or in the United States.

On the basis of a comparison of industrialized building operations in Italy, the United Kingdom, Denmark, France, Germany, and Sweden with conventional construction methods, as reported by building contractors, a direct building cost savings of up to 12.5 percent in England and 16 percent on the European Continent were claimed. These companies reported that construction time had been reduced in countries on the European Continent by 20 to 35 percent for projects between 200 and 500 units. The United Kingdom has reported that construction time was reduced by 17 to 50 percent in projects containing 200 to 2,000 units.

The difference in savings between the United Kingdom and countries on the Continent was attributed to the relatively short experience with new systems building and lower labor

productivity in the United Kingdom. In some instances, only 20 percent of the total contract is built with industrialized construction techniques whereas some systems on the Continent reported that 80 percent of the total work on a given project used industrialized techniques.

In order to determine cost benefits of using European industrialized building systems in the United States, Mr. Rothenstein supplied cost studies on two specific projects. One study compared the cost of a "system-built" structure with one using conventional construction techniques for garden apartments in Rochester, N.Y. Another study compared costs for a 16-story apartment house in New Haven. Both studies were prepared by the Balency-MBM Associated Construction Co., of Milan, Italy.

As shown in Table A-4, it was found that an industrialized building system for a low-rise apartment house in Rochester could produce a cost savings of 19 percent for the building shell and a 7-percent savings in total direct project construction costs. Table A-5 indicates even higher savings in construction costs by using the industrialized building system in a high-rise apartment structure. It was estimated that the cost of the building shell could be reduced by 38 percent with the industrialized building system and the total direct cost of construction of the building could be reduced by 16 percent.

As shown earlier in Table A-3, industrialized building systems on the European continent require an average of 762 manhours per 1,000 square foot of multifamily dwelling. The total average time required for the same amount of housing in the United States, as reported by the Department of Labor and the New York City Housing Authority, is an average of 1,314 man-hours. The total number of man-hours required for industrialized building systems used in the United Kingdom are higher than those in Europe and conventional systems in the United States. The average of 2,062 man-hours required for comparable multifamily dwellings probably accounts for the lower cost savings reported from the United Kingdom.

The total construction time for projects built with industrialized building systems on the Continent is below the average for projects of comparable size in the United States. As shown in Table A-6, it takes an average of 17 months to construct 1,000 units on the Continent as compared to 22 months in the United States, a savings, of 23 percent. The experience of European building systems indicates an average construction time for projects with 2,000 units would take 25 months, as compared to 31 months required to construct the same number of units in the United States. Here again, reports from the United Kingdom indicated longer construc-

<sup>5</sup> "Investigation of Potential Savings in Total Building Cost of Multi-Family Housing Built by Industrialized Building Systems."



tion time for projects built in the United Kingdom.

The conclusions from an investigation of the cost of housing built in the United States by conventional methods and a comparison of the major costs factors in the United States with European industrialized system building are given below. The summation indicates a potential savings ranging between 23 and 27 percent if building systems were utilized in the United States.

The results can be summarized in the following tabulation of potential savings through industrialized system building, using two different methods of analysis:

	Percent
(1) Net labor savings for all trades.....	11.0
Material savings in shell.....	5.0
Shortening of construction time. Potential of 6 months at $\frac{3}{4}$ percent per month.....	4.5
Architect-engineer cost.....	1.0
Overhead, profit, contingency, capital turnover .....	1.5
<b>Total .....</b>	<b>23.0</b>
(2) An analysis of a specific fully enclosed and partitioned shell building system indicates net labor savings of.....	7.0
Material savings in shell.....	5.0
<b>Mechanical and electric work:</b>	
Plumbing .....	4.8
Heating/Ventilating .....	2.0
Electric .....	2.3
<b>Total .....</b>	<b>9.1</b>
Deduction for industrial expenses (tooling and royalties).....	1.1
	8.0
Shortening of construction time. Potential of 6 months at $\frac{3}{4}$ percent per month.....	4.5
Architect-engineer cost.....	1.0
Overhead, profit, contingency, capital turnover .....	1.5
<b>Total .....</b>	<b>27.0</b>

Source: Rothenstein, *Ibid.*

The average potential savings is 25 percent.

Additional details and comparisons from the Rothenstein study are given in tables A-7 and A-8.

The most dramatic example of the use of industrialized techniques in building is found in the Soviet Union. With institutional impediments at a minimum and an incredibly large backlog of housing needs at the end of the war, the opportunity and desire for mass production techniques in the Soviet Union has been unparalleled. In the period 1959-65, 15 million units of new housing were produced. One plant in Moscow produced 30,000 units per year.

Dr. A. H. Bates of the National Bureau of Standards gave the Commission the benefit of his extensive knowledge of Soviet construction. Taking a basic four-room apartment with a total

of 560 square feet and using from 14 to 16 pre-cast panels to an apartment, he estimates that a crew of  $12\frac{1}{2}$  will erect in Russia two apartments a day. Giving skill and wage differentials ranging from \$1 for the laborers to \$6 for the crew chief he arrives at an average American wage of \$4 an hour, or \$32 a day and \$400 for a crew day. This would bring the costs of erection at Russian efficiency to \$200 per apartment, or a little more than 40 cents a square foot. The finishing crew of  $11\frac{1}{4}$ , it is estimated, can do one apartment a day at a total cost of \$400. Capital cost at the factories producing the panels was fixed at \$190 per apartment and factory labor cost at \$540. This was contingent, however, upon the factory operating at a rate of 10,000 apartments and 750,000 panels a year. Adding material costs both on the site and in the factory at \$1,430, \$630 for miscellaneous items and overhead, plus \$150 for transportation and delivery costs would entail a total cost of \$3,560, or \$6.40 a square foot. The wage for common labor was based at only about \$1.35 an hour which is much below what the American scale is and should be. Probably some of the other differentials could be reduced in the United States. Dr. Bates, believes, moreover, that still further reductions in cost are in process and will be released.

It should be noted again that most cost comparisons fail to take into account even very basic differences in quality. It is clear, for example, that the Soviet construction program has aimed for a simple but safe housing unit, with no frills. Quality in design and amenities have yielded to cost considerations. By middle class American standards, much of this housing would be totally unacceptable. Nevertheless, cost figures help to provide some idea about the impact of industrialization techniques and to suggest the significance of particular cost-reducing techniques.

TABLE A-1.—COMPARISON OF INDUSTRIALIZED AND TRADITIONAL BUILDING (FLATS IN 5 OR MORE STORIES)

	Industrialized average per square foot		Traditional average cost per square foot		Percentage industrialized building cheaper than traditional
	s.	d.	s.	d.	
Annual returns:					
1964.....	94	4	96	8 $\frac{1}{2}$	2.5
1965.....	99	3 $\frac{1}{2}$	104	4 $\frac{1}{2}$	4.9
1966.....	106	$\frac{1}{2}$	109	11 $\frac{1}{2}$	3.6
Quarterly returns:					
1966:					
1st quarter.....	98	6	108	10	9.5
2d quarter.....	105	2 $\frac{1}{2}$	110	9	5.0
3d quarter.....	107	7	109	6 $\frac{1}{2}$	1.8
4th quarter.....	107	11	111	1	3.6
Average.....	106	$\frac{1}{2}$	109	11 $\frac{1}{2}$	
1967:					
1st quarter.....	99	11	105	8	5.4
2d quarter.....	107	2	110	2 $\frac{1}{2}$	2.8

Source: Table 20 Housing Statistics, Great Britain.

TABLE A-2.—EXAMPLES OF COST SAVINGS WHEN USING INDUSTRIALISED BUILDING

(Comparison of 4 schemes in the Manchester area)

	Traditional scheme A		I.B. (Jespersion system) scheme B		Traditional scheme C		I.B. (Simms CDA) scheme D	
Contract sum.....	£637,968		£1,759,084		£162,241		£161,568.	
Tender date.....	January 1967		May 1967		October 1966		November 1966.	
Contractor.....	Direct Labour Group Manchester Corp.		John Laing		Partington		Simms Son & Cooke (West Pennine group).	
Number of dwellings.....	210 flats in 9-storey blocks		428 flats and maisonettes in blocks of 3, 4, and 6 storeys.		53 houses		54 houses.	
Number of storeys.....					2		2.	
Average dwelling size.....	499 sq. ft.		789 sq. ft.		899		920.	
Average occupancy.....	2.04 persons per dwelling		4.12 persons per dwelling		4.3		4.5.	

TABLE A-3.—APPROXIMATE MAN-HOURS PER 1,000 SQUARE FEET OF MULTIFAMILY DWELLING

Sources systems	U.S. conventional—New York City Housing Authority, U.S. Department of Labor			Western Europe industrialized					
				England—Bison, Easiform, Jespersen, and, Sectra			Continent—Balency Jespersen, Larsen and Nielsen, and Omnium		
	Low	High	Average	Low	High	Average	Low	High	Average
Onsite .....	850	1,480	1,165	1 1,525	1 1,850	1 1,687	1 325	1 600	1 462
Offsite .....	128	170	149	375	375	375	200	400	300
Total .....	978	1,650	1,314	1,900	2,225	2,062	525	1,000	762

Note: Average man-hours for industrialized building on European Continent are 170 percent below English average and 72 percent below U.S. average for conventional construction.

<sup>1</sup> Includes transportation of offsite-produced assemblies to site.  
Source: Commission Research Report by Guy Rothenstein.

TABLE A-4.—LOW-RISE ROCHESTER APARTMENTS—2 STORIES, 840 SQUARE FEET PER DWELLING UNIT

[Comparison of conventional precast and prestressed concrete construction with drywall partitions, and industrialized construction with precast walls and partitions and site-cast slabs. Labor cost, average: Factory, \$3.80 per hour; site, \$7.80 per hour.]

Cost per square foot of building	Labor cost (shell)	Material cost (shell)	Total cost (shell)	Total direct cost (building)
Conventionally built.....	\$ 2.55	\$ 2.35	\$ 4.90	\$14.00
Industrially built.....	\$ 2.29	1.71	4.00	13.10
Difference.....	.26	.64	.90	.90
Percent savings.....	10	27	19	7

<sup>1</sup> Man-hours per square foot of shell are 0.33 man-hours.

<sup>2</sup> Includes labor cost for mixing concrete.

\* At the average labor rates, the number of man-hours (factory and site) per square foot of shell are 0.37 man-hours.

<sup>4</sup> Cost breakdown per square foot as follows:

	Amount	Percent
Engineering.....	\$0.05	2
Factory work.....	1.00	44
Site work.....	1.24	54
<b>Total.....</b>	<b>2.29</b>	<b>100</b>

<sup>a</sup> Labor, 2 percent; material, 5 percent.

**Source:** Commission research report by Guy Rothenstein.

TABLE A-5.—HIGH-RISE NEW HAVEN APARTMENTS—16 STORIES, 915 SQUARE FEET PER DWELLING

[Comparison of conventional concrete frame construction using masonry and drywall partitions and industrialized construction using precast walls and partitions and site cast slabs. Labor cost, average: Factory,, \$3.75 per hour; site, \$7.15 per hour.]

Cost per square foot of building	Labor cost (shell)	Material cost (shell)	Total cost (shell)	Total direct cost (building)
Conventionally built (average 2 New York projects).....	<sup>1</sup> \$3.67	<sup>2</sup> \$2.40	\$6.07	\$14.07
Industrially built.....	<sup>2</sup> \$2.02	\$1.76	\$3.78	\$11.78
Difference.....	\$1.65	.64	\$2.29	\$2.29
Percent saving.....	45	27	38	16

<sup>1</sup> As the cost breakdown for the conventionally built New Haven shell was not available, average figures of projects of similar New York construction were used. Man-hours per square foot of shell are 0.51.

<sup>2</sup> Includes labor cost for mixing concrete.

\* Using the ratio of factory-to-site labor and the above average labor rates, the number of man-hours per square foot of shell is 0.34.

<sup>4</sup> Labor, 11 percent; material, 5 percent.



TABLE A-6.—CONSTRUCTION TIME FOR PROJECTS OF VARIOUS SIZES

[In months]

Sources, systems.....	United States: New York City Housing Authority, HUO, FHA			England: Bison, Easiform, Jespersen, Sectra			Continent: Balency, Jespersen, Larsen & Nielsen, Omnium, Sectra-Skarne		
	Western Europe industrialized								
	U.S. conventional			England			Continent		
Number of units.....	500	1,000	2,000	500	1,000	2,000	500	1,000	2,000
Low.....	8	18	20	16	20	24	8	11	12
High.....	18	24	36	24	30	36	16	24	36
Average.....	15	22	31	25	27	32	13	17	25

Note: England's average is in every instance above U.S. average. Continent's average for 500 units is 13 percent below U.S. average. Continent's average for

1,000 units is 23 percent below U.S. average. Continent's average for 2,000 units is 19 percent below U.S. average.

Source: Rothenstein, *ibid.*

TABLE A-7.—RANGE OF COST PER SQUARE FOOT OF MULTIFAMILY HOUSING <sup>1</sup>

	Europe		United States
	Housing built by industrialized systems	Housing of comparable rating built conventionally	Housing built conventionally
Walkup apartments .....	\$5.20-\$9.90	\$6.30-\$11.50	\$7.90-\$9.32
Elevator apartments .....	5.00-9.90	6.60-11.50	11.77-19.21

<sup>1</sup> Based on exchange rate of May 1968 for projects in United Kingdom, Denmark, Sweden, France, Italy, and the FHA, New York City Housing Authority, New York City Housing and Redevelopment Board, and New York State Division of Housing in the United States.

TABLE A-8.—RANGE OF AVERAGE NUMBER OF MAN-HOURS FOR CONSTRUCTION OF 1,000 SQUARE FEET OF DWELLING

	Europe		United States
	Housing built by industrialized systems	Housing of comparable rating built conventionally	Housing built conventionally
Walkup apartments:			
Offsite .....	200 to 450		
Onsite .....	350 to <sup>1</sup> 2,100	1,750 to <sup>1</sup> 2,600	
Elevator apartments:			
Offsite .....	200 to 350		
Onsite .....	300 to <sup>1</sup> 1,850	1,750 to <sup>1</sup> 2,900	850 to 1,486

<sup>1</sup>High figures are reported from Great Britain.

## CHAPTER 3

# Finance and Closing Costs

### HOUSING FINANCE

Since the "great credit crunch" of 1966, much attention has been focused on the problems of housing finance, and particularly on the plight of moderate- and low-income families. Many studies have been undertaken; a number of commissions have been created; Congress has held a series of hearings under the aegis of a variety of committees, and the industry concerned with the creation and financing of housing has provided a prodigious amount of valuable material, information, and ideas dealing with the problems of housing finance. These efforts have produced a substantial package of recommendations, many of which—such as the creation of the National Housing Partnership and the reversion to private status of the Federal National Mortgage Association—have been incorporated in the Housing and Urban Development Act of 1968 and in other bills and administrative rule changes.

It would be impossible to determine at this time just how effective these programs will be. Many of the concepts are relatively new (such as the auction market recently instituted by FNMA) and only an expanded base of experience and experimentation will provide a true measure of their validity. It is important, nonetheless, to note that movement has begun. There has been a realization that the rather inflexible techniques of the past must be changed to meet current conditions if we are to succeed in providing all Americans with the decent housing they deserve.

With full realization that the subject of housing finance is a much-ploughed field (though admittedly the crop has yet to blossom), it might yet serve some useful purpose to review briefly the problems and offer solutions in an attempt to support what has been accomplished and comment upon those problem areas to which the Nation has not yet addressed itself.

We have learned a good deal about housing finance since the credit crisis of 1966. For the first time in more than a decade, attention was paid to the problems of financing the construction of housing. As the flow of mortgage money diminished to a trickle, those concerned with

the creation of new dwelling units—builders, the government, and the people in need of housing—began to recognize (1) the importance of this capital flow to the creation process *regardless of need or demand* and (2) the inadequacies of a housing financial system which was unable to cope in a highly competitive atmosphere. Though it seemed to have been forgotten, the fundamental economic fact that housing must compete in the free market for funds was once again impressed upon the community.

The competition that developed was and will continue to be based upon the rate of interest paid to the lender for his money, combined with the ease or difficulty of making such an investment. In other words, the lender compares available competitive rates and selects that investment which will give him the best return in light of the current market conditions, the maturity (length) of the investment, the marketability of the investment, and the ease or difficulty by which the investment can be made.

That measure of current rate is a function of the money market as a whole. Hence, the totality of the market must be considered if we are to identify methods by which cost of housing can be reduced. (We have, in the past, indulged in some sleight-of-hand methods by which the monthly costs have been reduced—namely, through the extension of the maturity of the loan. This technique did not and does not reduce cost. In fact, it increased the economic cost. Politically, of course, this method tends to be most acceptable, but it does not solve the underlying problems.) Most importantly, we must recognize that there is no way to reduce the price of financing any classification of housing without first considering the problem of housing finance within the overall framework of our money market. We cannot change the market system just to solve housing problems.

The major recommendation in this chapter is aimed, therefore, at reducing the price of mortgage financing, and our examination of the money market for mortgage financing is undertaken from this point of view. We also include a section on closing costs—an important element in the initial costs of construction—and our recommendations for reducing these costs.



Some consideration should also be given to the fact that we are dealing with the total price of financing to the consumer, and with the cost to the government in subsidizing the consumer. This leads to another set of complications which deserve considerably more attention than has been paid to them in the past: the cost of subsidy programs in all their variations and permutations. The economic cost of subsidies is beginning to be subjected to close analysis. Unfortunately, however, the rational findings of such studies have been subordinated to presumed political practicalities and to budgetary considerations. The end result has been a galaxy of subsidy programs (many designed to support housing activities), some of which are direct and measurable and others in which the actual cost is hidden.

Though it is not the major purpose of this report to consider the detailed costs of our multisubsidy programs, it should be stressed that the cheapest subsidy—the one which costs the Nation the least—is the direct subsidy. Just as the tax code needs revision and reform, so do the subsidy programs.

The funds available for mortgage financing are derived from the corporate and household savings of the Nation. Those savings make up the capital pool out of which comes the financing of all of our activities. Mortgages must compete for their share of the capital pool with all other borrowers—corporate, governmental, and individual. We have now learned that this competition for funds is, at certain times, distorted in such a way that the mortgage instrument is effectively unable to compete as a result of (1) the lack of liquidity of the mortgage instrument, and (2) the restricted numbers and types of mortgage investors. These two factors, among others, serve at times to provide a superfluity of funds to the mortgage market, and at times to bring about a severe shortage of funds. Neither condition is healthy.

Real estate mortgages play a major role within our economy. Home mortgage debt approximates 62 percent of the Nation's total personal debt. For the past 10 years, nonfarm housing and commercial mortgage demands have used, on the average, 53.1 percent of all long-term funds available, and 31.5 percent of all funds. Of this amount, one- to four-family homes accounted for 37.6 percent of all long-term funds and 22.2 percent of all funds available.

Table 1 shows that in the 22 years following World War II, conventional financing—mortgages without FIIA or VA insurance—provided for 23 million units, or 65 percent of the 30.6 million new housing units which were built from 1946 to 1967, inclusive. (Obviously a major

contributing factor to this remarkable record lies in the more liberal terms authorized by the FIIA, which put competitive pressure on conventional institutions to be more liberal in their own terms.) Mortgages insured by the FIIA have financed 4.4 million new units, or almost 15 percent of the total, while VA guarantees have helped to provide nearly 2.9 million new housing units for veterans, or a little more than 9 percent of the total. The two together have assisted in the building of 7.3 million new housing units, or 24 percent of the total.

The mortgage investing institutions that have financed this activity can be divided roughly into two categories: deposit thrift institutions and contract thrift institutions. Deposit thrift institutions are those in which the flow of funds is based upon the discretion of the saver, and include savings and loan associations, mutual savings banks and commercial banks (time deposits). Contract thrift institutions depend upon their inflow from forced savings, such as life insurance contracts and retirement fund contributions (pension funds).

#### *Deposit thrift institutions*

(1) *Mutual savings banks* are generally found in the Northeast. Profits from mortgage investments are distributed among the depositors as interest on deposits. Mutuals are governed, in general, not by vote of the members but by boards of directors.

In 1946, mutual savings banks had deposits of approximately \$17 billion. By 1961, their deposits had increased to \$38 billion, and to \$62 billion in April 1968. These were relative increases of 123 and 63 percent, respectively. Depositors tend to save more than banks can invest locally, so that the banks seek outlets in other and more rapidly growing sections of the country.

(2) *Savings and loan associations* are located throughout the country. Unlike the mutual savings banks, the depositor-members of the S. & L.'s are not only credited with the profits upon the business but are also presumed to elect the directors and officers.

Of some 5,000 savings and loan associations in the country, of which 4,500 are insured by the Federal Savings and Loan Insurance Corporation, all but about 800 are mutuals. The remainder are stock companies organized as commercial enterprises, where the control and the residual profits are in the hands of shareholders.

Savings and loan associations have had a meteoric growth. In 1946, their assets amounted to only about \$8.5 billion, or about one-half those of the mutual savings banks. By 1961, however, these had risen eightfold to \$70.5 bil-

TABLE 1.—GOVERNMENT HOME PROGRAMS IN RELATION TO PRIVATE NONFARM HOUSING STARTS, 1946-67  
[Units in thousands]

Year	Total private nonfarm units <sup>1</sup>	Conventionally financed		FHA <sup>2</sup>		VA		FHA & VA (percent of total)
		Units	Percent of total	Units	Percent of total	Units	Percent of total	
1946.....	1,015.2	856.3	84.4	67.1	6.6	91.8	9.0	15.6
1947.....	1,265.1	926.5	73.2	178.3	14.1	160.3	12.7	26.8
1948.....	1,344.0	1,055.8	78.6	216.4	16.1	71.7	5.3	21.4
1949.....	1,429.8	1,086.4	76.0	252.6	17.7	90.8	6.3	24.0
1950.....	1,908.1	1,388.7	72.8	328.2	17.2	191.2	10.0	27.2
1951.....	1,419.8	1,084.3	76.3	186.9	13.2	148.6	10.5	23.7
1952.....	1,445.4	1,075.0	74.4	229.1	15.8	141.3	9.8	25.6
1953.....	1,402.1	1,029.1	73.4	216.5	15.4	156.5	11.2	26.6
1954.....	1,531.8	973.9	63.6	250.9	16.4	307.0	20.0	36.4
1955.....	1,626.6	965.0	59.3	268.7	16.5	392.9	24.2	40.7
1956.....	1,324.9	870.8	65.8	183.4	13.8	270.7	20.4	34.2
1957.....	1,174.8	896.4	76.3	150.1	12.8	128.3	10.9	23.7
1958.....	1,134.2	941.8	71.6	270.3	20.6	102.1	7.8	28.4
1959.....	1,494.6	1,078.3	72.2	307.0	20.5	109.3	7.3	27.8
1960.....	1,230.1	929.8	75.6	225.7	18.3	74.6	6.1	24.4
1961.....	1,284.8	1,002.7	88.0	198.8	15.5	83.3	6.5	22.0
1962.....	1,439.0	1,163.9	80.9	197.3	13.7	77.8	5.4	19.1
1963.....	1,582.9	1,345.7	85.0	166.2	10.5	71.0	4.5	15.0
1964.....	1,502.3	1,289.1	85.9	154.0	10.2	59.2	3.9	14.1
1965.....	1,450.6	1,241.3	85.6	159.9	11.0	49.4	3.4	14.4
1966.....	1,141.5	975.6	85.5	129.1	11.3	36.8	3.2	14.5
1967 <sup>4</sup> .....	1,268.4	1,074.0	84.7	141.9	11.2	52.5	5.1	15.3
Total.....	30,596.0	23,240.4	76.0	4,478.4	14.8	2,867.1	9.4	24.0

<sup>1</sup> Does not include mobile homes.<sup>2</sup> Does not include military housing starts, even when financed with mortgages insured by FHA.<sup>3</sup> Units are for 1- to 4-family housing.<sup>4</sup> Preliminary.

Source: Economic Report of the President. February 1968, table B-41, p. 256.

lion and were 80 percent greater than those of the savings banks. By April 1968, or in 7 more years, their assets had expanded by a further \$56 billion to a total of \$126 billion. These deposits are now more than twice those of the mutual savings institutions. In the 22 years since 1946, savings and loan assets have, in fact, multiplied almost 15 times, while those of the mutual savings banks have not quite quadrupled. In 1966, the savings and loan associations had invested \$106 billion in residential housings, of which \$97.4 billion were in one-to-four-family homes and \$8.6 billion in multi-family apartments.

(3) *Commercial banking institutions* have the primary function of serving the business community, particularly that community's short-term borrowing needs. Recently the commercial banks have become more active in real estate finance, but this is not their primary function and accounts for only a small part of their business.

In recent years commercial banks have been making concerted efforts to attract time deposits, in direct competition with other savings institutions. Accordingly, time deposits in commercial banks have risen dramatically, from \$82.5 billion in 1961 to \$187.8 billion in March 1968. This rise has been due, in part, to increases in the allowable interest rates which commercial banks may pay on their time deposits.

Commercial banks have also made a concerted effort to broaden the financial services they offer to the community at large with respect to hous-

ing finance. This effort has been expressed through many acquisitions by commercial banks of mortgage banking companies.

#### *Contract thrift institutions*

(1) *Life insurance companies* have always been investors in mortgages. State laws prohibit most of them from investing in common stock, since such investments were thought to be too risky in a field where the policy holders, who furnished the capital, desired security above all else. Since a high-yielding portfolio is necessary for competitive reasons, life insurance companies logically concentrated a large portion of their assets in mortgage investments. Because of the local nature of real estate, it was necessary for the insurance companies to establish a nationwide network of agents (correspondents) to assist them in selecting and managing their mortgage investments.

(2) *Retirement funds* currently invest about 8 percent in mortgages. This pool of capital assets is growing faster than any other form of savings. Total assets of all public and private pension funds last year were \$160 billion, an increase of almost \$12 billion over 1965. Private, State, and local pension funds totaled about \$130 billion. And in the next 10 years these funds will more than double.

Table 2 shows the volume of capital inflow to deposit and contract thrift institutions since 1963. Table 3 shows the annual investment in mortgages by such institutions. Table 4 shows the total amount of their assets invested in mortgages.



TABLE 2.—ANNUAL CAPITAL INFLOWS TO DEPOSIT AND CONTRACT THRIFT INSTITUTIONS: 1963-68 (IN BILLIONS OF DOLLARS)

Year:	Savings and loans	Mutual savings	Commercial banks	Life insurance			Pension funds
	(savings shares)	(deposits)	(time deposits)	(reserves)	(pension fund reserves)	(other)	
1963.....	11.1	3.3	14.3	4.0	1.7	0.7	4.4
1964.....	10.6	4.2	14.5	4.2	2.0	.8	4.9
1965.....	8.5	3.6	20.0	4.7	2.1	1.2	4.9
1966.....	3.6	2.6	13.3	4.5	2.1	.4	6.2
1967.....	10.7	5.1	23.8	4.6	2.2	1.4	6.3
1968 (estimated).....	6.5-7	3.5-4	20.0	5+	2.3	1.5	6.5

Source: Mortgage Bankers Association.

TABLE 3.—ANNUAL INVESTMENT IN MORTGAGES BY DEPOSIT AND CONTRACT THRIFT INSTITUTIONS: 1963-68 (IN BILLIONS OF DOLLARS)

Year:	Savings and loan		Savings banks		Commercial banks		Life insurance		Pension funds
	1 to 4 family	Other	1 to 4 family	Other	1 to 4 family	Other	1 to 4 family	Other	1 to 4 family
1963.....	9.3	2.9	2.6	1.3	2.7	2.2	0.9	2.7	(1)
1964.....	8.0	2.4	2.7	1.7	2.3	2.2	1.4	3.2	(1)
1965.....	7.7	1.2	2.7	1.4	3.1	2.5	1.2	3.7	0.6
1966.....	2.7	1.1	1.6	1.1	2.4	2.3	.5	4.1	.5
1967.....	5.9	1.7	1.8	1.4	2.5	2.1	—, 4	3.3	.1
1968 (estimated).....	7.5	1.8	1.3	1.2	3.5	2.2	—, 8	3.2	0

† Not available.

Source: Mortgage Bankers Association.

TABLE 4.—TOTAL ASSETS AND MORTGAGE INVESTMENT OF DEPOSIT AND CONTRACT THRIFT INSTITUTIONS: 1963-67 (IN BILLIONS OF DOLLARS)

Institution and years	Total financial assets	1 to 4 family	other
Savings and loan associations:			
1964.....	119.4	87.0	14.3
1965.....	129.6	94.8	15.5
1966.....	134.0	97.8	16.7
1967.....	143.8	103.5	18.5
Mutual savings banks:			
1964.....	54.2	27.4	13.2
1965.....	58.2	30.1	14.6
1966.....	61.0	31.7	15.7
1967.....	66.4	33.6	16.8
Commercial banks:			
1964.....	307.0	27.0	16.7
1965.....	337.6	30.1	19.2
1966.....	356.9	32.5	21.5
1967.....	393.9	34.1	23.7
Life insurance:			
1964.....	144.9	28.7	26.4
1965.....	154.1	29.9	30.1
1966.....	161.7	30.4	34.2
1967.....	173.0	30.2	37.5
Pension funds:			
1964.....	62.2	2.7	(1)
1965.....	70.2	3.3	(1)
1966.....	71.5	3.8	(1)
1967.....	86.9	4.0	(1)

† Not available.

Source: Mortgage Bankers Association.

*Tight money and mortgage lenders*

A large part of the 1966 "crunch" for housing stemmed from the unstable flow of funds into the primary mortgage lenders, the deposit thrift institutions. These institutions are unable to compete effectively with other financial institutions and with the securities markets when interest rates rise and yield curves flatten or slope downward. In periods of extreme tightness in money markets, such as the spring and

summer of 1966, many of these institutions face either an actual or threatened outflow of savings, with withdrawals exceeding new savings.

The impact on new housing starts of a reduced flow of funds into the institutions can be many times greater than the actual reduction in available funds. Faced with uncertainty on the duration and extent of the reduced inflow (or actual outflow), deposit thrift institutions' managers cut back lending. To do so is difficult, however, in view of their outstanding commitments. Thus new commitments to finance new projects may be reduced to zero.

Changes in savings inflow can be both sudden and large. For example, net savings inflow into savings and loan associations dropped from a seasonally adjusted annual rate of \$9 billion in the fourth quarter of 1965 to less than \$2 billion in the second quarter of 1966. Table 5 shows savings inflows for the month of April for the past 5 years, and their inverse correlation with the Treasury bill rate, a measure of tightness or ease in money markets.

Why are the thrift institutions subject to such reversals when money becomes tight?

TABLE 5.—SAVINGS INFLOW AND THE TREASURY BILL RATE, Month of April

Year	Net inflow (millions)	Bill rate
1964.....	\$314	3.48
1965.....	—94	3.93
1966.....	772	4.61
1967.....	498	3.85
1968.....	299	5.37

Primarily because they have relied so completely on a single source of funds, the savings passbook. Passbook savings are voluntary, rather than contractual, savings. Families can add to their savings or not as they please. Passbook savings are essentially demand obligations, subject to withdrawal at any time, for any purpose. When rates of return do not compare favorably with other investment opportunities, accumulated savings can be withdrawn and invested elsewhere.

But why don't the thrift institutions raise their rates to hold existing savings and to attract more? The answer lies in part in the nature of the passbook. Rates cannot be raised on new savings without raising rates on the entire volume of accumulated savings. More fundamentally, savings have been invested in long-term mortgages at rates of interest fixed when all market rates of interest were lower. Portfolios thus do not produce adequate returns to permit sufficiently high interest or dividend rates on savings to maintain a normal inflow.

These answers, however, only lead to a more fundamental question: Why have the thrift institutions managed themselves in this manner? There are several answers. First of all, for several decades the process of borrowing short and lending long had been both safe and highly profitable. Short-term rates were lower than long-term rates, and this was accepted as the "natural" relationship. In the second place, few people in or out of government assumed that the mix of monetary and fiscal policy for economic stabilization would ever put so great a burden on monetary policy as has been required in recent years. And few believed that domestic inflation and the international balance of payments would become such serious problems. Third, the Government agency most concerned, the Federal Home Loan Bank Board, neither encouraged nor permitted member associations to develop long-term sources of funds. Until late in the 1966 crisis, the FHLBB did not authorize members to pay differential rates for certificates as contrasted with passbooks.

As compared with U.S. savings bonds, municipal securities, bonds purchased at a discount and many other investment opportunities, the passbook has no tax advantage. All income is taxed as ordinary income in the year credited. When yield curves slope upward—that is, when short-term rates are lower than long-term—the tax disadvantage can easily be overcome by rates of return on demand obligations that are more closely related to long-term rates. But when yield curves flatten or slope downward, the passbook savings suffer from the tax disadvantage.

The contract thrift institutions—life insurance companies and pension funds—are less subject to such erratic savings inflows than the deposit thrift institutions. Nevertheless, they also show sharp declines in mortgage lending or acquisitions when money markets tighten and interest rates rise.

The major reason seems to be that contract thrift institutions are able to select and invest in a broad variety of securities, and therefore have the latitude to choose the most profitable investment at any given time. The inability of mortgages to compete on a rate basis is often legislated by State usury laws or, in the case of FHA and VA loans, by ceiling rates imposed by Federal administrative action. Furthermore, mortgage yields have traditionally lagged behind the trend of the money market. The combination of rate restrictions and market lag therefore creates a situation in which the investor with complete flexibility will turn to investments other than mortgages during periods when interest rates are in the ascendancy or have stabilized on a high level. (The opposite is the case when rates are falling; these same investors will then select mortgages—if they are geared for such purchases—since the mortgage rates will be more attractive than those available on other securities because of the lag.)

#### *The effect of Federal fiscal and monetary policy*

In 1966, when the U.S. economy was booming and the Federal Reserve Board raised its discount rate to member banks in the Federal Reserve System, the purpose of the Board presumably was to cool off the economy. In fact, however, the only segments of the economy that cooled off were housing and small businesses (both highly susceptible to changes in monetary policy). It became clear to most people that fiscal policy (including such factors as budget cuts and tax increases rather than mere increases in interest rates) would have to be used to cool off the economy, and that it was unfair to impose the full burden of control upon housing and small businesses. Much of homebuildings' cyclical performance might be prevented if the Federal Government (including the Federal Reserve System) were to adopt policies that avoid extreme tightness in money markets.

It is not easy to account for the attitudes of Government officials toward the relationships between economic stabilization, housing, and construction. The record of the Great Depression of the 1930's clearly indicates that housing was assigned a major role in efforts to revive the economy. The Home Owners Loan Corporation, the Reconstruction Finance Corporation, the Federal Housing Administration, the Public



Housing Administration, the Public Works Administration, and to some extent the Works Progress Administration, subscribed in varying degrees to the concept that a revival of housing and other construction would help get the economy moving again. Probably the most effective of these agencies in terms of its immediate impact was the HOLC, which did much to unfreeze investments in housing and real estate and enabled the market to begin expansion. The FHA also played a major part in helping to revive construction. Government officials rather generally adopted the idea that housing and other construction were important factors in the total economic picture and that stimulating house building and construction was an important means of moving the economy forward.

During the postwar years, when the problem of restraining the economy rather than of inducing expansion arose from time to time, it did not seem unreasonable for public officials (and in many cases the same officials were involved) to expect housing and construction to carry a major share of the burden of restraint. Indeed, housing came to be viewed as a contracyclical industry, and many officials considered this a proper role for it to play.

Because of this long historical background, it will not be easy to change the attitudes of many public officials toward the relationships between economic stabilization policies and the housing and construction industries. It may be difficult in some cases to expect vigorous implementation of new policies in this general area.

During the credit "crunch" of 1966, most public policymakers appeared willing to allow the construction and housing industries to absorb the major impact of economic stabilization programs. These attitudes were similar to those that prevailed in earlier periods when restraint was required in the interests of economic stability. So far as is known, no specific changes in public policy have been made in this area. At the present time, the construction and housing industries are apparently still scheduled to bear the major impact of future economic stabilization programs.

Public policy changes are needed which will result in more equitable distribution of the impact of economic stabilization programs on all sectors of the economy. Appropriate implementation of such policies will be required. This will require, in many cases, significant changes in the attitudes of public officials.

Public stabilization policies usually involve either the fiscal or monetary areas. The effective use of income tax adjustments as a major instrument of economic stabilization policy

might reduce the need for restrictive monetary and credit policies and thus reduce their unduly heavy impact on construction and housing. For such adjustments to be effective, however, the executive branch would probably need authority to raise and lower income taxes in relatively short periods of time. There is no indication that Congress is ready to grant such authority.

Policies could be adopted for guiding the use of monetary and credit programs for stabilization purposes. For example, it might be agreed that the impact of restrictive monetary and credit policies should be spread fairly evenly throughout the various sectors of the economy.

A decade or so ago, the contracyclical performance of house building was favorably regarded by many. Some diversion of resources from house building into plant and equipment during prosperity helped to keep the expansion in proper bounds, or so it was claimed, while the early revival of house building in the subsequent downswing helped bring the economy back to its normal upward climb. It is quite clear now, however, that everybody loses from this kind of performance and that greater stability over the cycle must be achieved if the house building industry is to produce the quantity and quality of housing the Nation needs at something approaching reasonable costs.

#### *How departments and agencies of the Federal Governments affect money and housing*

Sound economic policy involves the actions, intents, legislative and administrative interpretations, and long-range planning of a broad spectrum of Federal departments and agencies. Included in the economic process would be the Bureau of the Budget, the Treasury Department, the Federal Reserve Board and the Council of Economic Advisors. With particular respect to housing, the Department of Housing and Urban Development, the Federal Home Loan Bank Board and the newly-recreated private Federal National Mortgage Association must be added. It would take greater effort than this Commission could assume, under its mandate, to determine the exact effect and relationships of the actions of all of these bodies on the housing and mortgage market. It would undoubtedly be in the Nation's best interest if such a study were made. The interrelationships of the responsible agencies need rethinking and, perhaps, reshaping to fit the needs of society.

We need only to study the housing sector by itself in order to determine that a more rational system must be developed. It is difficult to accept objectively the proliferation of housing financial policies among HUD, the Federal Home Loan Bank Board, and the now-to-be-private FNMA.

At the present time, the Home Loan Bank Board has the greatest direct effect on housing finance. If the Board functions effectively and as it was originally intended to function when it was founded in the 1930's, a continued flow of mortgage money can be made available even in very tight money periods. But if the Board does not function effectively in tight-money periods, mortgage money simply dries up.

*The role of the home loan banks and the Home Loan Bank Board*

The Home Loan Bank Board has three sets of closely integrated functions in the financing of housing. It charters and supervises the Federal savings and loan associations; it is in charge of and administers the Home Loan Insurance Corporation, which insures the deposits in the savings and loan associations, and it exercises general direction over the 12 regional home loan banks.

By the end of 1967, the total assets of the 12 banks amounted to \$7.2 billion. They had a net operating income of \$62.9 million for the year on a gross income of \$419.4 million. The insurance corporation had an income during 1967 of \$175 million. Its losses were only \$3.8 million, which was a sharp drop from the 2 preceding years when these had been running at a rate of nearly \$35 million a year. It returned \$44.3 million in insurance premiums and after meeting other expenses had a net income of \$116.5 million. This brought the total assets of the insurance corporation to \$2.1 billion, of which nearly 90 percent was in Government obligations.

The Board itself collected examination fees and assessments of \$18.3 million while its expenses came to \$17.1 million. There were 4,487 insured associations, of which 2,056 were Federal and 2,431 were State chartered. The former had assets of \$75.3 billion and the latter \$63.2 billion, for a combined total of \$138.5 billion. About 3 percent of the assets were in cash and 87 percent in mortgage loans. The remainder were in other assets, reserves, and surplus.

The Federal home loan banks could provide at all times, including periods of extremely tight money, a more reliable and dependable channel to the money and capital markets for home buyers and homebuilders than their individual banks can provide. They have not done so, even though that is the purpose for which they were created.

Instead of making funds readily available to their members when such funds were needed for mortgage lending, the home loan banks have generally performed in the opposite manner, lending funds more freely when they were not needed and restricting lending when needs were greatest. The home loan banks have performed

almost as if their purpose were to make home-building contracyclical.

Our concern over the action of the FHLBB system is especially acute when we consider the needs for mortgage money in the next 15 years. In 1968, the housing industry needed and obtained about \$22 billion of mortgage money to finance new housing. In 1983, assuming a continuation of present economic growth rates and conservative population growth estimates, we will need some \$50 billion per year in mortgage money for new housing. At that time the gross national product is expected to approach \$2 trillion (1983 dollars) and our population will be close to 250 million people. But if the FHLBB system can function no better than it has in recent years, there will not, in all likelihood, be anything like \$50 billion available for mortgage financing.

The ability of the FHLBB to raise funds through the sale of long-term obligations has never really been tested. For that matter, neither has its ability to raise funds during periods of tight money through the issuance of short-term obligations or the sale of previously acquired Treasury bills. In view of the quality of credit of the home loan banks, it is almost inconceivable that they could not have done more than they did in 1966 to sustain the mortgage markets.

Between February and October 1966, the consolidated obligations of the banks increased by \$1.9 billion. Advances to members, however, increased by only \$1.5 billion. The amount needed by members to maintain a normal lending volume was much closer to \$5 billion, as indicated by the fact that their home mortgage loans increased by only \$2.9 billion in 1966, as compared with an average of \$7.8 billion for the preceding 5 years.

Could the Federal home loan banks have raised and advanced to their members an extra \$5 billion in 1966? Without much doubt the answer is that they could have, if they had anticipated the need for doing so and had managed their finances accordingly. In fact, they raised \$7.2 billion in 1966 through the sale of new obligations, but had to use \$5.6 billion to retire issues falling due in 1966.

However, the apparent need for an additional \$5 billion in the bank system greatly exaggerates the real problem. In the first place, credit policies adopted by the Board early in 1966 made it increasingly clear that advances would not be available to members for additional mortgage loans. Whether the Board wished the banks to be an instrument for restraining house building in an overheated economy, or was afraid that all their resources might be needed for advances to meet withdrawals, or merely feared



that the banks themselves might not be able to meet their own obligations, is not clear. The effect of the Board's policies, however, was to discourage members from making any new loans or any new loan commitments, and to preserve what liquidity they had for possible emergencies on the savings side.

One possible explanation for the attitude of the FHLBB was that it was directed by the Treasury, or by the Bureau of the Budget, to restrain homebuilding. But informed sources have indicated that no such request was made of the FHLBB at any time in that year. In view of the emergency that confronted the homebuilding industry in 1966, it is ironical that the Federal home loan banks increased their holdings of government securities by almost as much as they increased their advances to members—\$883 million versus \$938 million. While it is true that much of the buildup in government securities came late in the year, when members were actually paying back some of their advances, this was the very time that home construction was at its lowest ebb. If the banks (and the Board) had had the courage during the late spring and summer to make firm commitments to their members for advances later in the year, member associations could have made similar commitments to their builders and the decline in home construction could have been reversed much sooner.

Thus it seems to us that the major weakness of the Federal home loan banks is their failure to prepare for emergencies, their lack of confidence in their ability to perform, and the consequent complete lack of confidence of their members in the ability of the banks to render assistance when the going gets rough.

A much sounder policy would have the banks spread the maturities of their obligations so that no one year would have an undue repayment liability period, would provide firm commitments to members for advances, and would insure an adequate holding of liquid assets, not only to make good on commitments but to meet unforeseen emergencies. If, as we can now surmise, the banks would have needed to raise additional funds, they could have done so by issuing their own short-term obligations, which most probably could have competed effectively with bank certificates, finance paper, and other money market instruments. They did not follow this course, either because they were not allowed to by the Treasury or the Bureau of the Budget, or because they misunderstood the purpose for which the FHLBB was created. The home construction industry suffered unnecessarily in 1966, but this performance need not be repeated.

If short-term rates in future years stay well below long-term rates, deposit thrift institu-

tions will have difficulty in growing. On the other hand, there is no reason to deny them authority to develop sources of long-term funds. But if short-term rates equal or exceed long term, as seems likely except in temporary periods of business recession, deposit thrift institutions will have great difficulty in growing unless they do have the authority to develop such long-term sources as the sale of debentures to pension funds, obtaining of long-term advances from the Federal home loan banks, issuance of special types of savings contracts not subject to withdrawal, and other innovations.

Deposit thrift institutions need freedom to innovate in the development of contracts that will do a better job of holding short-term funds now represented by passbooks (and since 1966 by certificates). Variable rates, premiums, penalties, conversion privileges, tax advantages, and other possible features should be tried, and their value determined by experience rather than by the prejudgment of regulatory authorities.

Tradition, regulatory codes, and even the tax law limit the origination of home mortgage loans for sale to other investors. Trends in the flow of funds, however, suggest that mortgage market needs must be met at least in part, and probably to an increasing extent, by pension and trust funds, and by thrift institutions in locations distant from most active local markets. Broader development is especially needed for conventional mortgages where the nature of the instruments seems to be a sufficient restraint without such further barriers as limitations on their purchase and sale.

Present limitations, both as to type of investment and geographical area, encourage associations when money is plentiful to continue to pour money into local mortgage markets that may already be overly supplied with funds, rather than to buy mortgages originated in distant markets or to acquire earning assets that could be converted into loanable funds when mortgage demands exceed savings inflows. Authority is needed for outright purchase of conventional mortgages as well as participations.

We believe the FHLBB system should be made to work. This agency would and should assure an appropriate flow of funds into home mortgage markets at all times. By an appropriate flow we do not mean that home mortgage markets should feel no pinch when other money markets are tight, but that the funds needed for house building should not bear more than their share of the impact of tight money.

Ideally, Congress should; (1) Define the bank system's objective as providing an appropriate flow of funds into home mortgages. This would

remove all doubt as to the purposes for which the bank system exists.

(2) Separate from the Federal Home Loan Bank System the responsibility for chartering, supervising, and insuring savings and loan associations. The bank system, under a three-man board, now has responsibilities with reference to savings institutions that are shared, in the case of commercial banks, by three separate agencies—the Federal Reserve System, the Federal Deposit Insurance Corporation, and the Comptroller of the Currency. The multiplicity of duties and responsibilities may be preventing the Federal home loan banks from performing well their principal function of sustaining home mortgage markets. It is possible that a three-man board cannot do all that is required of the FHLBB. It might be well to enlarge the board to cover the wide responsibilities of the system better.

(3) Encourage the banks to develop long-term sources of funds, and permit long-term advances to members as needed to sustain home mortgage markets. While large associations undoubtedly could, if permitted, obtain long-term funds by issuing long-term obligations, the Federal home loan banks offer the best route to such funds for most associations. The banks must develop long-term sources not only for long-term advances to members but also for building their own liquidity. The banks should avoid having to retire any very large portion of their own indebtedness during relatively short calendar periods—periods which may or may not occur during tight money conditions. They should also raise cash in emergencies through the sale of Treasury bills as well as their own short-term obligations. A strong bank system could present a balance sheet with large holdings of liquid assets and few if any current liabilities. But it should also have the courage in emergencies to reduce its liquid assets and increase its current liabilities as required to support not only its members but the home mortgage markets they are intended to serve.

(4) Substitute firm commitments for present uncertain credit lines as principal means of assuring members that funds will be available to them in times of emergency. The bank system has not always operated on a businesslike basis in the extension of credit to members. Open lines of credit, unenforceable by the members, have been established with little reference to mortgage market needs. Credit has been withdrawn, or made available only for meeting savings withdrawals or previously committed loan demands. This does not seem to us an appropriate way of serving as a central bank. On the other hand, members have assumed that funds would be available as needed without advance

notice, and this does not seem to us an appropriate way to manage a financial institution. If the banks issued firm commitments, received an appropriate fee therefor, and obtained or held necessary funds to meet their commitments, members would have to anticipate their needs more accurately and make them known to the banks sooner. This would help both the members and the banks serve their function more effectively.

#### *Government-insured mortgage bonds*

The Commission commends the provision in the Housing and Development Act of 1968 whereby financial institutions may issue money market instruments (bonds) against collateral consisting of Government-insured or guaranteed mortgages. This provision should be rapidly implemented.

Such securities would be attractive to that sector of savings not now directly investing in mortgages: individuals and pension funds. The complexity and the length of time consumed in the purchase of a mortgage instrument now drive away such investors. A security that consisted of a mortgage bond, serialized to absorb amortization, issued in \$1,000 segments with both a fixed maturity and a fixed coupon, might be purchasable with the same ease as other bonds because the complex procedures of servicing would be handled by the institution issuing the bond, rather than by the investor. Conferring on residential mortgages, through this new instrument, the same liquidity as other corporate paper could mean that more investment would be attracted into the residential mortgage market.

The basic concept has been accepted by Congress. National and State legislative action is required to permit the issuance of such instruments. Federal legislation should specifically endow the bond with a flow-through of the protection of government insurance on the collateral formed by the mortgages, to give these bond instruments an advantage over others with the same yield.

#### *State usury laws*

The Commission believes the flow of mortgage investment would be considerably enhanced by adoption of uniform State usury and foreclosure laws.

State control of interest ceilings on credit purchasing or on the lending mechanism aside from mortgages has a rightful place arising from State concern for the public welfare. Releasing the ceiling on mortgage rates, however, would not strip the mortgage instruments of all control; the multitude of control factors in the nationwide mortgage market as well as in Federal Government policies and actions provide ultimate bounds.



The alternative would be continued State legislative action pushing up the mortgage rate in State after State to prevent capital from draining away to neighboring States or into other more productive investments. The Commission recognizes that the benefit of such a relaxation is likely to be felt only in the short run, and maintains its support for longer range, more basic improvements.

State laws which insure slow and costly foreclosures now hamper the borrower by making it more difficult (and usually more expensive) for him to obtain a mortgage. They are bad for the mortgagee, who may have to carry a house for 2 years after the owner defaults and moves away. Such procedures may have made sense a hundred years ago, to save the farmer from losing the family homestead to the greedy money-lender after the failure of a single crop. They make no sense, however, in these times of 95-percent mortgages, 30-year loans, walkaways, and token amortization.

No lender today wants to foreclose if he can avoid doing so. Almost all are glad to tide distressed homeowners over a temporary crisis. It is doubly foolish, therefore, to make foreclosure difficult when the mortgagee is forced to act. The easiest way to modernize foreclosure is to allow present procedures to stand but to add, as an alternative, deeds of trust with a very short redemption period. Several States have already adopted this procedure.

#### HOME-PURCHASE CLOSING COSTS

A surprisingly neglected area of housing costs is the matter of closing costs. Yet such costs often impose substantial financial hardships on the home buyer at a time when he is least able to afford them. The problem is not merely one of amount, but also of the fact that many home buyers are largely unaware of their existence. Since the prospective home buyer is understandably desirous of buying the best home he can afford, considering this to be a sound investment, he often plans a tight budget based only on the stated selling price of the house. When confronted with the closing costs, sometimes only at the very last moment—the date of closing the transaction—he frequently finds it necessary to borrow more money at high personal loan interest rates. Thus, he begins his homeownership on a precarious financial footing.

Closing costs, as the term is generally used, are those costs other than down payment and prepaid interest on the mortgage loan which

are incidental to the final settlement of a real estate transaction. They include costs associated with the transfer of title and with arranging the mortgage loan. In addition, they include certain prepaid items which, though not technically separate "costs," must be paid at the time of settlement.

The actual amount of closing costs varies widely from place to place throughout the country. This variation depends on local practice as to the handling of each element as well as on differences in tax rates and the general price level. The question of who bears such costs also varies with local practice. In addition, some elements of closing costs vary with the price of the property and the amount of the mortgage loan. The averages for the country under FHA for new and existing houses are shown in table 6.

TABLE 6.—CLOSING COSTS ON NEW AND EXISTING FHA-INSURED HOMES, 1952-56

Year:	Average incidental costs	
	New houses	Existing houses
1952.....	\$217	\$205
1956.....	284	283
1960.....	289	277
1964.....	349	309
1965.....	376	330

The major items of closing costs are the following:

1. Title search and insurance.
2. Lender's service charge.
3. Settlement fees.
4. Prepaid taxes and insurance.
5. Transfer taxes.
6. Miscellaneous charges.

#### *Title insurance*

One of the most expensive elements is the cost associated with determining the state of the title and insuring against defects. To determine whether the seller's title is what he represents it to be, the buyer and mortgage lender will arrange for the title to be "searched," i.e., traced through the public records to determine the chain of title and the existence of any liens, easements, or other restrictions or encumbrances on the property. The search will be followed by an "evaluation" of the title, a review of the information gleaned from the search and conclusions as to the "quality" of the title. Finally, the lender will generally demand that he be supplied with a title insurance policy, insuring him against any defects which are not revealed by the title search and evaluation. If the buyer

wishes, he may also acquire a title insurance policy protecting him against any such defects.

The costs of search and insurance vary considerably. In most larger cities today, title insurance companies perform virtually all of the services connected with search and insuring titles. Such companies will normally charge separately stated fees for the search and for the policy itself, though in some areas the charge is stated as one all-inclusive item. (As a normal business practice, companies will not run title searches except as a preliminary to issuing an insurance policy.) The charge for the title search will be stated in terms of some basic charge for the first thousand dollars to be insured, and some small amount for every additional thousand dollars. For example, in Washington, D.C., a typical search charge is \$55 for the first thousand dollars and \$2 for each additional thousand to be covered by the policy. (This would be \$93 on a \$20,000 house.) Variation in these fees as among different localities reflect different wage rates, the state of record-keeping in the locality, and the like. Generally speaking, they are higher in the East than in other parts of the country.

Rates for the actual insurance premiums are much more standardized. The so-called national rates, which prevail in a great many areas, are \$2.50 per thousand dollars of risk covered for a mortgage and \$3.50 per thousand for an owner's policy. (The lower rate for a mortgage policy reflects the smaller risk involved. As the mortgage is reduced and eventually paid off, the risk of loss to the mortgagee, and therefore, to the title company disappears. The risk under the owner's policy, on the other hand, remains as long as the property is not sold, and, in theory, remains in perpetuity since a later owner may look to the insured to make good any defect. The lower rate may also reflect the greater bargaining power of mortgage lenders vis-a-vis the title insurance companies.) If both mortgagee and owner policies are purchased at the same time, the basic charge of \$3.50 per thousand will be made for the owner's policy, and some flat price increment, \$10 or \$15, will be charged for the mortgagee policy. The premium is designed to cover risks, costs of work involved in preparing the policy itself (as distinguished from the abstract of title which contains the information revealed by the title search) and overhead expenses. Risks are of two kinds: first, there are risks that the title search and evaluation are defective either because of negligence or because of judgments which later prove wrong; second, there are risks which can-

not be discovered by even the most meticulous search of the public records. These include such things as fraud or forgery in documents affecting the title, unreleased rights of dower or courtesy, and execution of documents by minors or insane persons. In addition, in issuing its policy, the title company agrees to provide attorney's fees in connection with any attacks on the title, even those which prove to be unsuccessful.

Larger title companies today maintain their own "title plants," consisting of copies of public land records which are assembled and indexed in the best manner for title search purposes. In addition, such plants consist of past title searches prepared by the company, and such other information as will prove of value in conducting title searches. These companies apparently find the public records themselves in such a state of confusion and disarray as to merit creating their own duplicate records. In a few places, including Denver and Dallas, companies have joined together to create joint title plants, thus reducing expenses and improving coverage.

The need to maintain title plants, as a result of the inadequacies of public recordkeeping, helps account for the small number of title companies operating in any given city. Even in the very largest cities, such as New York and Chicago, a handful of companies capture the overwhelming percentage of business. Where smaller companies do attempt to compete, they may be forced to take greater risks than their larger competitors because of short cuts in search titles necessitated by keeping costs down while relying on the normal public records. Over time, the advantages of size become more significant. As companies perform more searches, their own records grow, and the likelihood of having to insure the same property again increases. It is becoming more and more the practice for companies to give discounts on new policies issued on properties which the company has insured, and therefore searched, in the past. This "tie-in" effect, while clearly reducing the price of insurance in the short run, thus also has the effect of making entry into the industry more difficult.

In some large cities, such as Newark, but especially in suburban areas and smaller cities, the title company will not itself undertake the title search. Instead, private attorneys, who are approved by the title company which will eventually issue the policy, conduct the search and provide an evaluation of the title on the basis of which a policy will be issued. Generally



speaking, where a private attorney is used, the total cost will be higher. Thus, for example, the rate of \$55 for the first thousand and \$2 for every additional thousand in Washington becomes \$75 for the first thousand and \$2.50 for each additional thousand in the suburban Maryland counties, when private attorneys are used.

Where title insurance companies do not exist or mortgage lenders do not demand title insurance policies, their noninsurance functions are handled by private attorneys, abstract companies or a combination of the two. Neither the attorneys nor the abstract company is a true insurer of title in the same way as the title companies. The attorney or abstractor will prepare an abstract of title based on a search of the public records. Liability is generally limited to losses incurred due to negligence in the search itself, with the burden of any hidden defects being left to the parties to the transaction. The attorney-abstract company approach is predominant in the Midwest.

Perhaps the most discussed alternative to title insurance is the so-called Torrens system of recording deeds. In effect, this is a system of public title insurance. The purchaser or owner of land applies to the public registrar to record the title to his property and issue a Torrens certificate. Under the registrar's supervision, the title will be searched and investigated, after which a court proceeding will be held to determine title to the property. Such a determination will result in a decree stating the true ownership, as determined by the court. The title will then be registered accordingly, and a Torrens certificate issued to the owner. Once registered, title to the property can only be transferred by recording the transaction and having a certificate issued to the new owner, and any purchaser is fully assured that the title is in the person shown to be the owner on the registrant's books.

The major problem with the system appears to be that the initial registration is extremely costly and time consuming, and most owners will not undertake the process. In addition to the other costs of registration, an amount must be paid into an insurance fund which is used to pay the later discovered losses of persons having valid claims against the property which were defeated by the court decree. Since in practice the system is used mainly by owners of highly questionable titles who are willing to pay the high costs of registration, the insurance fund itself may be put into jeopardy. (At one time, some 20 States had laws providing for use of the Torrens system as an optional

form of registration. A number of these States have repealed their laws, and now about 13 States have operating Torrens systems. Among the major cities in which it is available are Boston, Chicago, Duluth, Minneapolis-St. Paul, and New York City. Even in these areas, however, the system is not widely used.)

Who bears the cost of title searches and insurance is also a matter of local practice. In general the mortgage lender demands that the borrower (the buyer) supply a mortgagee policy providing coverage for the full amount of the mortgage loan, and it is the buyer who in fact bears the cost. In the Midwest, the seller often bears the cost of the title search and may split the insurance cost with the buyer. Where the buyer wishes to purchase an owner's policy, he will normally pay for it or pay the extra amount required to obtain it over and above the amount which the seller will pay toward the mortgagee policy. Where a developer is purchasing property on which to build or is obtaining construction loans, he is often able to obtain special consideration from the mortgage lender and from the title company or attorney. Seeing the possibility for considerable business once the developer begins to sell off the completed buildings, lenders may be satisfied with less than assurance against loss for faulty title and attorneys and title companies may substantially reduce or eliminate their charges.

#### *Lender's service charge*

In order to cover incidental expenses in connection with making a loan, mortgage lenders frequently charge the borrower a service charge or organization fee. Such charges are very common on FHA- and VA-guaranteed loans, and the Government places a limitation of 1 percent of the mortgage principal on such charges or 2.5 percent where construction loans are involved. They are much less common on conventional mortgages.

#### *Settlement fees*

A number of services must be performed in arranging and completing the closing, including preparation of documents, arranging for property surveys and recording, clearing minor defects in title, seeing to it that insurance of various kinds is obtained, and the like. The functions may be performed in whole or in part by title companies, real estate brokers, mortgage lenders or attorneys, and charges will vary depending on what is involved in the particular transaction and who performs the services.

Where a lawyer is involved, and in most places this depends on the wishes of the parties, the cost will normally be higher than otherwise. (In some jurisdictions, the preparation and handling of certain documents involved in a real estate closing have been held to be the practice of law and thus reserved for attorneys. This is the case, for example, in Newark.) Where an attorney is not used, such costs will usually be less than \$50.

#### *Prepaid taxes and insurance*

Because unpaid taxes on real property normally give rise to a lien which is superior to a mortgage, the mortgagee will require the borrower to make monthly payments to it to cover estimated property taxes, and the mortgagee will use this money to pay to the government when the tax comes due. Where the mortgage begins between tax collection dates, the mortgagee will usually require the borrower to make a payment representing the estimated amount of accrued taxes. The seller usually bears the actual cost of accrued taxes by giving the buyer a credit against the purchase price, but the borrower might be surprised when the lender actually withholds this amount. In addition, the mortgagee generally requires that the borrower prepay a year of homeowner insurance, covering fire and other hazards to the property and in some cases may even demand that the borrower take out life insurance. And where an FHA-insured loan is involved, the buyer will prepay the one-half percent premium. All of these prepaid items are costs which the homeowner must eventually pay. Nevertheless, having to prepay them at the time of closing, along with other closing costs, can be especially burdensome.

#### *Transfer taxes*

As of January 1, 1968, 30 States and the District of Columbia imposed State or local taxes on the transfer of real property. The rates of such taxes are generally quite low, typically 55 cents per \$500 or about one-tenth of 1 percent. In three States—Delaware, Pennsylvania, and Rhode Island—the rate is 1 percent. Practice varies as to who pays the tax.

#### *Miscellaneous costs*

In addition to the larger items of cost discussed above, there are a number of other items which enter into the total of closing costs. Included are such things as fees for notary public services, property survey and credit reports, appraisals, recording fees, and the like.

The series of tables which follow show a considerable variation between cities in the amount of closing costs. Thus, in Newark, N.J., they amounted to \$522 in 1964, or 50 percent more than the national average. In 13 out of 120 housing areas, they came in 1966 to more than \$500 on new housing, while in 29 more, they came to between \$400 and \$500. In slightly over a third of the areas, they were, therefore, more than \$400. Some of these high-cost areas are shown, of which Washington, D.C., Wilmington, and Roanoke, as well as Newark, are perhaps the most conspicuous.

In 27 of the 120 case areas, these costs were over two and a half percent of acquisition costs. But since the mortgage comes to over 90 percent of the acquisition costs, these costs formed a large relative addition to the amount a homeowner had to put up on his equity at the time of purchase. It is worthy of inquiry as to why these closing costs should be so high in cities which are listed, and an appeal should be made to the bar associations and title companies to cooperate in reducing them.

TABLE 7.—AVERAGE CLOSING COSTS<sup>1</sup> FOR FHA-INSURED MORTGAGE LOANS<sup>2</sup> IN 3 HOUSING AREAS, 1961 AND 1964

Housing area	Title insurance	Other title-related costs <sup>3</sup>	Attorney fees	Property survey	Service charge	Other lender services	Recording fees	State and local taxes	Subtotal	All other costs	Total costs
Indianapolis:											
1961.....	\$47	\$10	\$19	\$13	\$124	\$14	\$12	\$16	\$175	(4)	\$198
1964.....	54	19	41	15	120	20	11	11	228	0	228
Newark:											
1961.....	79	185	205	45	152	22	15	0	456	(4)	500
1964.....	86	61	216	48	149	33	14	0	522	0	522
St. Louis:											
1961.....	53	71	0	33	134	6	15	0	284	(4)	330
1964.....	74	80	0	46	128	18	17	0	216	\$218	254

<sup>1</sup> Does not include prepaid items.

<sup>2</sup> Figures include only those FHA-insured transactions for which reports were received in connection with special studies on closing costs.

<sup>3</sup> Includes charges for title search and evaluation where these are stated as items separate from title insurance on the mortgage closing statement.

<sup>4</sup> Not comparable.

Sources: 1961 data, Housing and Home Finance Agency, published in "Hearings Before a Subcommittee of the Committee on Banking and Currency, U.S. Senate, 88th Congress, on S. 750" pt. 2, following p. 1250. 1964 data, "Loan Closing Costs on Single-Family Homes," prepared for the Housing and Home Finance Agency under the urban studies and housing research program by the Institute of Urban Life, Chicago, Ill., May, 1965, p. 56.



TABLE 8.—DISTRIBUTION OF AVERAGE CLOSING COSTS <sup>1</sup> ON FHA-INSURED SINGLE-FAMILY HOMES, 1966

Average closing costs	New housing (Number of housing areas)	Existing housing (Number of housing areas)
Less than \$200.....	0	2
\$200 to 249.....	7	20
\$250 to \$299.....	24	36
\$300 to \$349.....	26	22
\$350 to \$399.....	21	15
\$400 to \$449.....	13	9
\$450 to \$499.....	16	13
\$500 to \$549.....	6	2
Over \$550.....	7	3
Total.....	120	122

<sup>1</sup> Does not include prepaid items.TABLE 9.—AVERAGE CLOSING COSTS <sup>1</sup> ON FHA-INSURED SINGLE FAMILY HOMES FOR SELECTED HOUSING AREAS, 1966

Housing areas	New homes			Existing homes		
	Acquisition costs	Closing costs	Percent	Acquisition costs	Closing costs	Percent
Austin, Tex.....	\$15,166	\$263.83	1.74	\$12,958	\$228.01	1.70
Birmingham, Ala.....	17,273	439.63	2.54	14,233	381.35	2.60
Chattanooga, Tenn., and Georgia.....	17,015	342.08	2.01	12,726	278.48	2.19
Davenport, Rock Island, Moline, Iowa and Illinois.....	17,728	287.85	1.62	15,414	277.98	1.80
Flint, Mich.....	16,131	331.74	2.06	14,074	280.33	1.99
Greensboro-High Point, N.C.....	16,690	401.67	2.41	13,753	345.70	2.51
Jackson, Miss.....	16,031	441.40	2.75	13,150	357.91	2.72
Little Rock, North Little Rock, Ark.....	16,549	369.52	2.23	13,824	332.51	2.41
Miami, Fla.....	16,995	487.50	2.87	14,434	437.68	3.03
New York, N.Y.....	17,783	463.38	2.61	19,881	554.89	2.79
Omaha, Nebr. and Iowa.....	18,533	258.22	1.39	14,506	242.51	1.67
Phoenix, Ariz.....	17,459	343.98	1.97	14,178	264.98	1.87
Roanoke, Va.....	14,948	492.83	3.30	13,655	464.55	3.40
San Bern.-Riv.-Ont. Calif.....	20,718	312.53	1.51	15,560	268.94	1.73
Seattle, Wash.....	19,712	343.15	1.74	17,429	320.62	1.84
Washington, D.C., Maryland, and Virginia.....	26,285	658.78	2.51	20,406	548.09	2.69
Wilmington, Del., New Jersey, and Maryland.....	17,464	597.11	3.42	14,475	565.73	3.90
Total, United States.....	18,002	397.00	2.21	15,501	337.00	2.17

<sup>1</sup> Does not include prepaid items.TABLE 10.—DISTRIBUTION OF AVERAGE CLOSING COSTS <sup>1</sup> AS A PERCENTAGE OF ACQUISITION COSTS ON FHA-INSURED SINGLE FAMILY HOMES: 1966

Closing costs as percent of acquisition cost	New housing, number of housing areas	Existing housing, number of housing areas
Less than 1 percent.....	0	0
1.00 to 1.49.....	19	9
1.50 to 1.99.....	37	47
2.00 to 2.49.....	27	27
2.50 to 2.99.....	24	22
3.00 to 3.49.....	13	15
3.50 and above.....	0	2
Total.....	120	122

<sup>1</sup> Does not include prepaid items.

## CHAPTER 4

# Restrictive Building Practices

What part do building practices play in slowing progress in home construction? As a result of such practices, are Americans denied cheaper, better housing?

Because of the Commission's central concern with generating a vastly increased supply of decent housing at the lowest possible cost, this issue had to be faced squarely. Probably no other single issue confronted the Commission with greater complications. Because of this complexity, we urge readers of this chapter to read it to the end and to consider it as a whole before drawing conclusions. Not everything, or even all the significant things, can be said first. Apart from the emotional setting which frequently clouds labor questions, the analysis of this subject had to surmount such difficulties as the following:

Apparent restrictive building practices often result not only from the efforts and interests of unions but from those of contractors and producers as well.

Assertions that unions typically raise costs unnecessarily are made so often and so forcefully that the public tends to take claims as facts, although numerous claims are not borne out on closer scrutiny.

Generally, both union leaders and builders are unwilling to discuss restrictive practices publicly, even in response to charges of specific restrictions.

Even those with intimate knowledge of working conditions often find it difficult to distinguish between restrictive practices and legitimate safety or job security requirements.

The fragmentation of the building industry into many craft unions and the multitude of local and regional trade agreements make generalizations hazardous.

The Commission made an extensive effort to surmount these various difficulties and to gather and assess the facts. We believe we took neither a pro-labor nor anti-labor, pro-industry nor anti-industry posture in this work, but rather a pro-public posture—a position intended to open to consumers the fullest benefits of housing technology consistent with the legitimate interest of the main participants in the productive

process. Several general findings and conclusions lend perspective to the more detailed discussion that follows:

1. Unions have been active partners in a number of breakthroughs involving new products and methods. The circumstances under which labor is more likely to cooperate than to react defensively in the face of innovation need to be more widely understood.

2. Many restrictive practices do exist. They vary greatly from place to place. Beneath these variations from place to place and from trade to trade are certain practices that, in their totality, retard the adoption of new materials and improved systems of handling old materials, thereby adding to housing costs.

3. Too microscopic a view of restrictive practices draws a curtain over the larger problem: the need for a much higher rate of home construction along with continuity of work for the labor force throughout all seasons. Many of the onerous practices that seem insoluble in the framework of widely fluctuating employment and construction patterns could more readily be resolved if the construction industry were expanded and stabilized.

### *Searching for the facts*

Public hearings, private interviews, staff research, university surveys, and research studies by outside consultants were among the means used by the Commission to throw light on the state of local building practices.

At public hearings in more than 20 cities across the Nation, homebuilders, local officials, union leaders, product manufacturers, and citizens offered considerable testimony on local building practices.<sup>1</sup>

To uncover specific cases of alleged restrictions, the Commission with the cooperation of the Council of Engineering Consultants, the American Institute of Architects, the Associated General Contractors of America, and the National Association of Home Builders, undertook a survey of the members of these large organizations that are most directly involved

<sup>1</sup> The recorded statements are published in Volumes 1 through 5, *Hearings Before the National Commission on Urban Problems*, Government Printing Office, Washington, 1968.



in the building process. While much of the material received was somewhat superficial or failed to offer substantiation of allegations, the survey did produce some carefully detailed examples of practices and of trade agreements which, for either good or bad reasons, were restrictive.

The same four organizations also cooperated fully in a different type of study. They encouraged approximately 5,000 of their members to cooperate with university studies, instigated and designed by the Commission, in four large metropolitan areas. In Houston, New York, Detroit, and San Francisco, examples of similar types and patterns of constraints emerged from the investigation. These two surveys thus reinforced each other.

A sizable number of persons invited to appear at public hearings or to participate in other ways in our research on building indicated a fear of economic retaliation from certain union or industry groups if they were to speak candidly in open testimony, or if their allegations could be traced back to them. The Commission took great pains, therefore, to provide anonymity for those who felt they were jeopardizing their businesses, products, or agreements. Confidential taped interviews were held with builders from many parts of the country. Information on local code and industry practices was received. The Commission as a whole also met in closed session with several witnesses. Finally, the material was collated in such a way that it could not be identified by construction project or by region if the source set that as a precondition for divulging information.

The strong pleas for secrecy and anonymity engendered great expectations that very often were not filled and that, in some instances, produced little more than recitations of unverified prejudices.

But much valuable material was revealed. And the fear of reprisals, justified or not, in itself was one important key to understanding the climate in the building industry. It underscored the fact that, unlike the situation in many industries where the management or corporate concentration of power is as great or greater than that of the unions with which they deal, the home construction industry is characterized by enterprises that, in the major cities, have less power than the building trade unions. Elsewhere, homebuilding labor tends to be unorganized and hence the upper hand most often lies with the builder, despite the fragmentation of the industry.

A major part of the Commission's work in this field, by staff members assisted by outside consultants, was the attempt to get union responses to the various allegations developed during the research efforts just described. As

can be seen from the detailed items and responses given later, the unions gave a very good response to the itemized allegations. The responses received gave a useful sampling of the union perspective. We consider that we received exceptional cooperation.

Finally, much of the Commission effort was devoted to seeking out progressive efforts by builders, designers, producers, and unions to escape the constrictions of the past, and to search for the preconditions that will maximize these cooperative efforts.

### *Progressive action*

Any overall view of the housing industry today must take note of many technological changes. Some changes have been adopted almost universally. Many others are used only by the pathfinders of the industry. But the fact that these products and processes are in evidence, and that the craftsmen doing the work are typically members of building trade unions, refutes some of the oft-quoted charges that unions oppose and prevent all progress.

This is not to make any special case for the virtues of labor which, like almost all other elements in our economy, is motivated in part by self-interest. But technological progress often is in the self-interest of a union group. A craft, in these times of industrial change, can be priced out of the market if it too stubbornly resists change. The competition between products and between different craft unions often is the spur to progress.

In recent decades, the most dramatic change has been the acceptance in the homebuilding process of many more prefabricated components, reducing time-consuming and costly on-site production.

From California to New York, the Commission also heard builders and designers of whole new building concepts praise the labor unions for giving invaluable help in seeing these projects through to successful completion. These included instances of revolutionary approaches to the whole building, and of massive rehabilitation efforts.

In these instances, the trade union leaders were brought into the projects at the outset. Potential jurisdictional disputes and other difficulties were avoided by anticipating likely trouble spots and by ironing them out in advance. New methods and materials were not suddenly set before workers without warning, in a way that would arouse their fears of abandoning established patterns, or the greater fears of losing their livelihoods. In short, both the union leadership and rank-and-file workers felt that they were participants in a worthwhile experiment. Their ideas and enthusiasm were

capitalized on by assuring at the outset that their vital interests also would be respected.

These instances, however, are far from universal. They show what can be accomplished. They reveal the potential for progress. But to take heart from the silver lining is not to deny that many restrictive practices still remain very much a part of the current scene.

#### *Narrowing down the catalog of complaints*

In canvassing the building industry for complaints, the Commission wanted to obtain those which were unique to the industry.

In the wide-ranging catalog of complaints received, one of the first jobs was to eliminate those which the Commission, in consultation with labor-management specialists, believed to be encountered generally in many industries and not unique to homebuilding. More importantly, these are the complaints which experts believe can best be resolved through normal collective-bargaining arrangements. In any event, because these are such common complaints, they are receiving widespread attention in the labor-management field. These include questions about responsibilities of shop stewards, hiring halls, coffee breaks, lunch periods, seniority, wages and hours, grievance procedures, cleanup, travel-time, maintenance allowances, and tools and storage.

The Commission, let it be emphasized, neither discounts the importance of such questions nor passes on the validity of the charges and countercharges it heard about them. But the Commission decided that its limited time could be put to best use by concentrating on complaints directly related to advances in building technology and costs.

#### *Offending practices*

The work rules practiced at the local level and incorporated in agreements between management and labor that impede the use of technological innovations appear to fall chiefly into the following categories:

- Onsite rules, requiring certain work to be done on the premises and prohibiting or limiting the use of prefabricated products;

- Restrictions against the use of certain tools and devices;

- Requirements for excessive manpower on the job, including what appear to be irrational limits on the variety of work certain categories of workers may perform.

While there are honest differences of opinion about the seriousness or cost impact of any specific example of such practices on any particular construction project, the existence of them in many forms and variations is beyond question. They are imbedded in custom and contract. It strains belief to think that the

totality of these practices would not increase the cost, impair the quality, or decrease the supply of housing.

However, the conclusion that these practices are completely without justification, or that they can be remedied in some simple fashion, is not supported by the facts. Even the abbreviated examples of charges and response below give an inkling of the complexities involved.

What one man sees as a wasteful procedure or use of manpower, for example, may turn out to be a genuine, necessary safety feature in the light of experience. *We do not recognize as restrictive practices work rules designed to protect men from undue hazard* in an industry which is risky at best. But this may be abused. Everything called a safety rule is not necessarily that.

To cite restrictions in a few places does not automatically mean they exist uniformly. The trade unions, like their employers, are still very fragmented. They possess a good deal of local autonomy. Unusual patterns develop from region to region.

The Commission attempted to collect instances of restrictive practices in a responsible way, insisting on substantiation with specific details rather than accepting broad, generalized attacks. Yet it seems evident that antipathy toward trade unions in general was reflected in some of the charges received.

Many practices incorporated in work rules may be more the responsibility of the employers than of the unions who negotiated the agreement. In the bargaining process, the union may be seeking  $x$  dollars an hour. The contractors may succeed in getting the union to accept 20 cents an hour less, for instance, by offering the union one or more of the work rules that, from a public perspective, appear restrictive. And the benefit, as well as the responsibility, may be greater for the employer.

In other instances, dealt with in great detail elsewhere, restrictive practices embedded in building codes may be and often are largely the result of the influence of interested manufacturers. Sometimes the contractors, too, lend their support to these restrictions. And at times the manufacturers, contractors, and labor are all working in harmony in behalf of these restrictions.

Many of the charges and countercharges examined by the Commission concern big construction, not the typical small home. Furthermore, a large portion of the homebuilders employ nonunion workers. These facts are noted as a further complexity in understanding how these matters relate to housing. Big-city construction projects, particularly high-rise buildings, are typically union. Nonunion labor



in metropolitan area often receives the pay and abides by many of the work rules that apply to unionized labor in the same area. Some home-builders who employ both union and nonunion labor testified that the major difference is that the former tend to be more efficient.

A final note before looking at a sampling of alleged restrictions is that the construction industry is vastly different from the average industry. The differences will be examined later in an attempt to explain why restrictive practices persist.

### *Onsite production versus prefabrication*

Contractors contend that various craft unions require work to be done on the site when factory-cut or assembled products would be both better and cheaper. It is further claimed that such rules in the long run tend to stifle the development of new construction techniques.

*Charge 1.* Plumbers allow only stock items to be brought to the site. They further limit the size of pipes permitted to be prefabricated. When it is not practical to do the cutting on the job, permission must be obtained from the union to use prefabricated pipe.

*Item.* The following language is extracted from a plumbing agreement:

Pipe 2 inches and under shall be fabricated on the job by plumber mechanics to whom the work belongs. In cases where it is not practical to cut pipe on the job, it shall be discretionary with the employer to have pipe 2 inches and under fabricated elsewhere; provided, however, that permission is obtained by the employer from the business manager of the local union.

*Response.* The United Association of Journeymen & Apprentices of the Plumbing & Pipe Fitting Industry of the United States and Canada did not see fit to give the Commission any comments on restrictive practices in general or to reply to this specific charge.

*Charge 2.* Builders and contractors contend that carpenters prevent the use of precut cabinets, hung doors, doors cut for hardware, moldings, etc.

*Item.* The Supreme Court case concerning prehung doors (discussed later) substantiated some of these practices beyond any doubt.

*Response.* The United Brotherhood of Carpenters & Joiners of America did not deny the specific charges but justified them in four words, "Work preservation. Gross exaggeration." But the union discussed the general charge as follows:

Comments made to this item are basically too generalized, lacking both premise and conclusion in order to adequately reply to. Therefore, any statements will be in a generalized nature. It is true that there are certain provisions within collective agreements which restrict the use of certain machines and devices, but the instances revealed within the text are completely false. The United Brotherhood of Carpenters & Joiners of America does not restrict or prohibit the use of

manufactured or milled cabinets. The fact of the matter is, the united brotherhood has within its membership several hundred thousand members who are employed in large and small industrial plants who earn their livelihood from such manufactured goods, so it would hardly be realistic or practicable to prohibit such products and highly discriminating to a large segment of this organization's membership. The united brotherhood has traditionally advocated that such products be manufactured under reasonable standards and working conditions. This policy, however, has never restricted the use of manufactured products. It merely encourages employers to deal with fair manufacturers. Such activity has contributed greatly to the economic standards enjoyed in this country. True, there are restrictions over the use of certain devices; however, such prohibitions or restrictions generally fall in the form of safety or work preservation insurances. Each of these matters have been or are to be discussed in their appropriate subject matter in detail. Certainly the Commission has no intentions of diluting time-honored safety standards nor does it wish to come in conflict with the United States Supreme Court concerning "the work preservation concept." The implication of both these factors are far reaching and are entitled to a broader view of discussion than to be submerged within the extension of these discussions.

*Charge 3.* Ironworkers in several localities were said to require (a) the onsite bending of reinforcing rods. In addition, the union itself recognized charges in many localities by contractors that (b) the welding of studs as shear connectors on the top surface of beams must be performed in the field.

*Item.* In Commission sessions builders have cited specific examples from New York City that rods must be bent onsite.

*Response.* The International Association of Bridge, Structural & Ornamental Iron Workers noted in regards to (a) the bending of rods, "there are one or two minor restrictions on this." But the union insisted, "The general rule is that whatever work can be fabricated in the shop and by practical work operations moved to the field, such materials are accepted and handled \* \* \*. The total tonnage of reinforcing installed in the United States would be under conditions that 99-plus percent of all reinforcing would be shop bent. Secondly, there has been a new technological development (and) within the very near future, the bending of reinforcing rods will be a thing of the past." In regards to (b), the studs, the union said, "When these studs are installed in the shop, it is extremely dangerous to walk on the top surface of the beam since the studs catch the cuff of the ironworkers' overalls, and many injuries and deaths have resulted." The union said many States are adopting safety laws supporting the union position of onsite welding.

*Charge 4.* A number of allegations pointed to instances in which prefabricated products are accepted by the unions, but accepted in connection with two practices which negate the cost savings: (a) the unions disassemble the prefabricated materials on the site and put them

together again; and (b) the unions handle the materials but charge a premium rate for so doing.

*Item.* Electricians were said to rewire certain fixtures on the site, but specific citations were not received about this. This is a matter that would be the responsibility of the electrical subcontractor rather than the general contractors who furnished most of the evidence gathered.

*Response.* We received the following reply from the President of the International Brotherhood of Electrical Workers:

It has been brought to my attention that in the course of your Commission's hearings and other information gathering activities pertinent to your mission, you have received certain allegations regarding electrical workers. As I understand it these include statements by contractors or persons unknown to the effect that electricians performing onsite construction wiring have on occasion insisted on rewiring light fixtures, which had been prewired at the source of manufacture.

I am sure that members of your Commission have sufficient knowledge and background in the construction industry to realize that it is a natural reaction of any construction worker to be resentful upon seeing work, which he has traditionally done at the jobsite, gradually being fragmented and diminished through new methods, changing technology and prefabrication offsite. Since a typical construction worker has in all probability completed at least a 4-year apprenticeship training course, devoted his life to his trade and has relied on said trade to provide a livelihood to his family and permit him to be a good citizen, he instinctively takes a defensive attitude either individually or insists that his bargaining representative do so on his behalf. This type of reaction resulted in such extremes as civil cases up to and including Supreme Court action.

In the IBEW we make no secret of our concern about the erosion of onsite construction work tasks. However, we have had to face up to the facts of life as they exist. We feel that the following case history (brief) will serve to illustrate how the electrical workers represented by the IBEW along with their employers represented by the National Electrical Contractors Association have faced up to the type of problems mentioned above.

First, a word about the relationship between the two organizations mentioned. For more than 40 years the electrical contracting industry, as represented by the two, has resolved practically all of its collective-bargaining problems as well as interpretation of such collective bargaining agreement through an intraindustry forum known as the Council on Industrial Relations (CIR) for the electrical contracting industry. In fact it is a matter of record in such high places as the Congressional Record that the IBEW has established a reputation of a virtually strike-free electrical contracting industry. In the course of its proceedings the CIR on August 20, 1965, heard a case involving Local Union 103 IBEW, Boston, Mass., and the Boston Chapter of the National Electrical Contractors Association. The case involved the very question of prewired fixtures and the local union's request for enforcement of their agreement, which among other things provided a ruling on article V, rule 25A. A copy of this decision of the council is attached hereto. Please note the second paragraph speaks to the question of the above-mentioned allegations about electrical workers, wherein it says in part, "The parties hereto are instructed to revise article V, rule 25A, to meet the present day practice."

(Our italic added for emphasis). At a later date there was a question as to the full meaning of that decision. The electrical contractors submitted the request (copy enclosed) for clarification. Also enclosed you will find under date of November 18, 1965, a copy of the decision in request for clarification, which again emphasizes " \* \* \* the present day practice,"<sup>2</sup> concept. I trust that by means of this letter and its enclosures the IBEW has brought to the attention of your Commission what we feel is an enlightened approach on the part of our industry to the problems in construction today.

#### *Devices and tools not allowed.*

Many unions are alleged to prohibit the use of specific devices, tools, or equipment on the job.

*Charge 1.* One of the oldest and most persistent charges is that painters often limit the width of brushes or, in the case of rollers, the width of rollers and the length of handles.

*Item.* The following language is taken from a Baton Rouge contract:

Brushes not over 4½ inches will be used when painting structural steel. Brushes over 5 inches shall be used in water emulsion paints only.

Also, interview testimony pointed to instances where rollers over 9 inches and with handles 6 feet or over were prohibited.

Further prohibitions cited in the case of painters included the use of sprays for floors, doors, offices, cafeterias, dispensaries, and recreation places.

*Response.* The painters replied as follows.

Attention is hereby called to article 17 of Painters District Council No. 22's labor agreement, wherein it will be noted that spray painting is performed on an extensive basis on both old construction as well as new construction.

Topeka, Kans., was referred to as having restrictions on the use of devices, and in this connection, article IV, section 4 of the labor agreement for Painters Local Union No. 96 of Topeka, Kans., clearly sets forth the procedure for performing spray painting, and, as will be noted, a joint trade board for both contractors and union members issues the decision for the use of paint sprays governed by the health and safety considerations that must accompany the proper and safe use of paint sprays. The last paragraph of article IV, section 4, clearly sets forth certain materials which may be sprayed without obtaining a permit.

The Brotherhood of Painters, Decorators & Paperhangers replied as follows to the—

\* \* \* reference of "brushes not over 4½ inches will be used when painting structural steel," said provision appearing in the collective bargaining agreement of Painters Local Union 728 of Baton Rouge, La. While painting erected structural steel, bridges, and towers the use of a 4½-inch paint brush is the very maximum of brush size which could be used with any degree of safety. Anyone who possesses any conviction to the contrary is simply not informed as to the hazards in the performance of such work. Across the land painters are required to paint steel buildings, and, in some cases over a hundred stories in height, some towers over 600

<sup>2</sup> The documents were received and are in the files of the Commission.



feet in height, and a more hazardous work assignment does not exist in this Nation than that which is involved in the painting and repainting of bridge structures. In addition to complying with State and local safety codes, plus the safety measures taken by the local unions of the brotherhood, a quick look at the hazards involved in this work will reveal that the very highest casualty and fatality rate within the overall construction industry prevails in connection with steel painting, which is, by the way, made even more hazardous by weather conditions, especially moisture and frigidity. Steel painters are required to serve a 3-year apprenticeship, and, while so doing, they are quite naturally taught to employ the use of the proper tools. This fact is recognized by the management and always this fact is reflected by the collective bargaining agreements. If one would make a realistic survey of this matter, they would be early to learn that a steel painter actually performs more work and a better quality of work by using a paint brush not more than 4 or 4½ inches in width. The civil engineers and inspectors responsible for the proper coating and painting of steel structures would be quick to prevent the use of paint brushes too large to perform the application, and if such practice were employed, the steel would not be properly protected.

They also replied to the allegation that:

\* \* \* "interviewed testimony pointing to instances where rollers over 9 inches and with handles over 6 feet were prohibited." Such testimony was surely not taken from anyone familiar with the use of paint rollers. No mechanic could efficiently produce quality finishes using paint rollers wider than 9 inches.

Anyone attempting to use a wider paint roller would practice false economy. The labor and time necessary for cleanup would far exceed any advantage of a wider roller. Also, even the manufacturers of the roller realize that a roller in excessive length would fail to apply coatings and paints with the proper adhesion. In fact, there are many paint roller assignments which require even less than 9 inches on certain types of work.

With regard to the handles exceeding 6 feet in length, please be advised that a vast majority of the employers who perform high quality work will not permit the use of any roller handles other than the 12 or 18 inch produced by the roller manufacturers. Handles which are 6 feet in length are the very maximum which could be efficiently used.

The survey \* \* \* should have been made with the counsel and advice of someone familiar with the painting and decorating industry, or, such survey could have been made by engineers or architects who have a knowledge of the work and the tools involved in the painting and decorating industry.

*Charge 2.* On jobs of less than a certain size, some roofers prohibit the use of mechanical aids for installation, and some of this equipment again is prohibited on new construction.

*Item.* From a roofer's contract:

On all new jobs of less than 300 squares per building no machinery of any sort, including slagging in machinery, felt laying machinery, whether run by motor or operated by hand, shall be used or permitted, except for hoists, pumps, hot buggies (one man shall be assigned to each hot buggy when in use), tank trucks and conveyors. Hand-operated slag spreader may be used for hauling only in lieu of wheelbarrow \* \* \*. On all new jobs of 300 squares or more per building no motor driven machinery of any sort including slagging in machinery, felt laying machinery, cranes and

any and all other types of motor operated machinery shall be used or permitted except for hoists, pumps, tank trucks, and conveyors.

*Response.* The United Slate, Tile & Composition Roofers replied as follows:

The most common practice in the roofing industry is not to limit the use of mechanical equipment.

The size of jobs plays an important part in whether or not it is profitable to use equipment. To make statements that mechanical equipment could be used on roofs, regardless of size, denotes a lack of knowledge of roofing designs whereby a roof can have 1,000 squares, yet equipment would be cumbersome and not practical.

Other factors that must be considered before irrational statements are made, are safety to the roofers and men working underneath and what harm is done to the roof by running equipment over the finished felts.

*Charge 3.* Operating engineers were said to restrict the use of machinery.

*Item.* No substantiation of this was offered, although it arose in a different light to be noted under discussion of restrictions related to excessive manpower.

*Response.* The Operating Engineers conceded the practice but responded as follows:

New tools and equipment should not be arbitrarily introduced into use in the construction industry. Frequently, tools and processes which are perfectly valid and safe in an industrial plant are real hazards under the conditions that obtain on many construction sites. Careful investigation and discussion of possible problems with the tradesmen who will have to use the tools is essential.

*Charge 4.* Cement masons, while not forbidding the use of machine tools, nevertheless are said in many instances to demand that hand troweling go over the machined work.

*Item.* In a number of States from New Hampshire to Oregon, the survey pointed to the cement finishers as requiring the following:

There shall be no restriction on the use of machinery but all cement floating or finishing machinery shall be operated by cement finishers and all hand work shall be also done by cement finishers. *Under no circumstances shall work be left under machinery finish.* [Italic added.]

In one instance, hand finishing was required both *before and after* the machine finishing, raising the question in some contractors' minds of why they should use the machine at all.

*Response.* The Operative Plasterers & Cement Masons replied as follows:

We wish to point out that power troweling machines and power floating machines were never conceived with the idea of replacing hand finishing methods. The power machine was primarily intended to serve as an aid to enable the placement of low slump concrete, increase volume of placement, densify and compact after placement and increase the speed of the finishing process with reduced effort. The troweling machine cannot produce the final fine finish that is specified for a troweled surface. This can only be achieved by hand work \* \* \*. Many unethical contractors frequently substitute a machine finished surface for a troweled surface. Ignorance or lack of knowledge on the

part of many architects and almost all owners cannot distinguish between a machine finish surface and a troweled surface and, thereby, unwittingly encourage this policy to the detriment of the concrete industry.

*Alleged excessive manpower requirements*

The charges of excessive manpower, and of manpower used nonproductively, are numerous. What was said about restrictive practices in general needs to be doubly emphasized in introducing this matter: it is very complex, far more so than meets the eye.

*Charge 1.* Some complaints stem from jurisdictional difficulties between two or more crafts, and with the complexity of modern materials, the nature of the job is admittedly far from clear.

*Item.* A claim that best illustrates the charge (although it does not apply to housing, and is lacking in substantiation) concerned a special hospital table in Pittsburgh that had fittings for gas, electricity, and water. It was alleged that sheet metal workers, electricians, and steam-fitters all had to take part in moving the table from the truck in order to get it delivered to the hospital.

*Response.* None required, because item was not verified.

*Charge 2.* Some of the strongest feelings on this issue were directed at the engineers. Contractors stated that although electrical equipment may often be started with nothing more than the push of a button, contracts nevertheless call for operating engineers to man it. Air compressors and pumps that run for 24 hours, it was asserted, must be manned by separate engineers during three shifts, even when other engineers are at the site.

*Item.* A Minnesota contract requires an oiler for almost all equipment even if it is stationary throughout the duration of the project. In Massachusetts the following instance was cited:

When a single diaphragm pump or one electric pump of not more than one-half inch is used more than 2 hours in any one day, an engineer shall be employed at a minimum of a day. Single diaphragm pumps and one-bag mixers, gasoline or electric power, may be grouped on jobs as follows: (1) Two or three of these machines, one engineer. (2) Four of these machines, two engineers.

*Response.* The International Union of Operating Engineers replied as follows:

The practice of shifting an engineer from one machine to another has long been a hazard where it has been uncontrolled. Much of good operating practice depends on familiarity of the operator with the placement and direction of action of control levers, pedals, and other operating appurtenances. In addition, even outwardly identical models of machines frequently have highly individual idiosyncrasies. Machines which are totally different in function usually require a completely different set of reflexes for safe operation. Under no circumstances should an engineer operate

more than two different machines on one shift and even then should exercise caution \* \* \*.

There are many excellent reasons for requiring oilers on cranes, shovels, hoes, and similar equipment. Among these are the fact that this is virtually the only source of trained and experienced operators. In addition, there are many, many circumstances in which an engineer must have someone who knows the machine immediately available to him to secure essential information about items he cannot see or read during operation. Often the oiler must act as signalman both for operating signals and for warning personnel in the vicinity of an operation. He keeps an eye on the machinery while the attention of the engineer is entirely devoted to operations. All these factors are essential to even minimally safe operation and are in addition to his function of assuring proper lubrication and cleanliness of the machine \* \* \*. It is difficult to imagine a more hazardous practice than allowing another trade to start a machine. Inspections *must* be made before each start and the engineer must assure himself that all controls are in a safe position.

*Charge 3.* Elevator constructors were frequently mentioned in connection with the issue of standby workers. Contractors have said that, since all new elevators today are self-operating, either manually or automatically, they do not need an operator, much less a highly paid worker, to run an elevator.

*Item.* The survey included charges that elevator constructors claim jurisdiction over elevators up to the time of final inspection. In addition, it was claimed that having an elevator constructor on hand during drilling operations could be very expensive if these took a long time.

*Response.* The International Union of Elevator Constructors replied as follows:

The report should have been more explanatory and stated that the cars are of a temporary nature or an incomplected car wherein some equipment, usually of a safety factor, such as car doors, electrical interlocks on said doors are inoperative (or in the elevator language "jumped out"); hoistway doors being manually opened and closed instead of automatically; other factors such as the automatic leveling are usually only roughly adjusted; nonpermanent cab liners are used to protect the finished product, thereby having an operator on to prevent damage which surely would occur with no operator present; cars set at a speed below normal for safety reasons, such as no car doors on and to prevent accidents to riders; and if same car is run at normal speeds, the operator prevents overloading of car which is a constant threat on construction work \* \* \*. With regard to the part of the report that the Elevator Constructors require a man to simply "stand by" while a hole is being dug that will receive the casing of a hydraulic elevator, that can stand some clarification. This item was actually a concession on the part of the Elevator Constructors, in our last standard agreement, to allow our employers (the elevator contractor) to subcontract a part of our jurisdictional grant in order to permit them to do the work more expediently and economically, especially in certain areas where granite, rock, etc. were in the soil to be dug. We do require that at least one elevator constructor be on the job site, not only to protect our jurisdiction, but to lay out the hole, aid in setting up the drilling rig, supervise the drilling and setting of the



casing, and perform any other work required in the process of digging the hole, and then in the dismantling of the drill rig so the man cannot be classified as window dressing as the report infers. The report also infers that the man remains after the hole is completed until the start of the installation of the remainder of the elevator equipment which is not true as normally the hole is dug before the walls of the building are up and hence they pull off until it is possible to install the remainder of the elevator. Actually, the subcontracting of the hydrohole is a very small part of the industry and many, if not the majority, of our employers have their own drilling equipment and then the work is performed exclusively by Elevator Constructors.

*Charge 4.* Cement finishers, it was claimed, must stand by when concrete is being poured although they are not actually used in this operation.

*Item.* A New Orleans contract states that cement masons shall be present at the site of the pour at the time the contractor shall commence the pouring of concrete.

*Response.* The Operative Plasterers' & Cement Masons' International Association replied as follows:

The allegation about cement masons being on stand-by is a joke. This sort of reminds me of calling up a surgeon and requesting his arrival in 15 minutes because you will have the patient on the operating table at that time. How can he be expected to know the patient's symptoms, the tools required or anything else? This is not to equate a cement mason with a surgeon, but it makes a good analogy. If the concrete is important enough to require a cement mason, it sure is important enough to have a cement mason there when the operation begins, in order for him to become aware of the type of material being used, the grades and elevations, the tools needed, the type finish desired, and also some idea of the concrete setting up rate.

#### *Restrictive practices in perspective*

Investigation of work rules cannot stop with one round of claims and counterclaims. A deeper look reveals that facts and fictions are easily confused because rules that sound restrictive may be ignored in practice or because progressive positions taken by the national unions sometimes are ignored in one or more localities.

But even when the facts of a given case are clarified, how does one decide whether the obstruction of a work rule to new devices or to cost reductions outweighs the value of that rule toward safeguarding the immediate, short-run interest of a worker in his job and in certain working conditions?

This question leads to the view that no fair judgment can be reached by looking at these practices in isolation. They must be judged, rather, in terms of their peculiar industry. Many of the work rules cited seem ridiculous or indefensible to people familiar only with other industries. Yet the case against these rules grows weaker and weaker within the perspective of the unique aspects of the construction industry as it exists today.

Some of these aspects are—

- Wide fluctuations in productivity, year to year, season to season;
- High rate of unemployment;
- Fairly high hourly wages, relatively lower annual incomes;
- Highly competitive employers;
- Highly competitive craft unions;
- Jumping from employer to employer and from place to place;
- Weather a constant source of uncertainty;
- Difficulties in attracting and keeping apprentices.

The highly segmented homebuilding industry is surpassed only by the retail trade in the number of bankruptcies. The entrepreneur in this insecure industry produces, on the average, less than 25 homes a year. Even the largest homebuilder, in this era when so many industries are dominated by giants, accounts for only a fraction of 1 percent of the total volume of homes produced in a single year.

From the worker's perspective, unemployment rates in this industry have been twice as high as in other industries. Problems of seasonal employment are intense. During the course of any year, the total number employed in the building industry rises and falls 30 to 35 percent. (See chart showing housing starts, 1961-68, for a graphic view of these ups and downs.) In recent years, between 800,000 and 1 million more workers have been employed in the building industry in August than in February. These seasonal fluctuations vary with climate and region; the warm States of Florida and California experienced employment differences of only 10 percent in 1966 while Minnesota, in the same year, employed 65 percent more construction workers in August than in February.

On an annual basis, unemployment in construction has almost doubled other fields. In 1966, the unemployment rate for construction workers in February (the low point) was 13.1 percent compared to 4.1 percent for all wage and salaried workers, and in August (the high point) the construction unemployment rate was 4.9 percent, compared to 3.9 percent in all other work. That year, as compared with a 7.3 percent unemployment rate for all nonfarm-workers, construction workers experienced an annual unemployment rate of 11.9 percent.

At a theoretical standard of 2,000 hours of annual employment (based on a 40-hour week less holidays), the AFL-CIO estimates that construction workers are employed an average of 1,400 to 1,600 hours. The *Labor Review* of September 1967 reported lower annual earnings for contract construction workers than for other manufacturing industries. In 1964, average

earnings were \$8,078 for petroleum workers, \$7,386 for motor vehicle workers, and only \$6,305 for construction workers. One further study on this aspect: in New Jersey in 1964, the operating engineers found that whereas their members had an average annual employment of about 1,600 hours, 20 percent of these workers enjoyed 2,000 hours or more of work, but another 22 percent were employed for less than 1,000 hours during the year.

For the average American employee who goes day after day and possibly year after year to the same indoor place of employment, it is easy to forget that the man in the building trades may be denied work by inclement weather; that each time he finishes a job he is likely to lose his employer; that he may work on many separate projects during the year; that to find work he not only must find a new job but often go to a new community; that in some seasons he can expect prolonged unemployment, and that for some of these reasons he often does not want his sons to follow in his footsteps. In fact, parents in general are not urging their sons to be carpenters, bricklayers, and so forth.

What many of these aspects of the building industry add up to is an understandable effort on the part of unions to give their members security in the midst of an essentially insecure system. To propose simplistic solutions to dilute security measures could move back the clock in terms of social concern. And while bringing greater insecurity to members of the construction work force, it could leave the industry itself with more severe shortages of skilled manpower.

Certainly some of the seemingly restrictive measures are attempts by the unions to require employers to carry as high a load as possible of apprentices. From the short view, these apprentices may seem to be excessive laborers for the job at hand. But for the long view, these are the people who must be trained if enough skilled workers are to be available to carry on the work of the future.

### *Negroes and the building trades*

Undoubtedly one of the most critical of all restrictive practices in the building industry is the set of barriers which, in many parts of the country, has prevented Negroes from enjoying equal employment opportunity in the home construction field. These barriers were not entirely unique to the building industry and many of them permeated the institutions of society in general. Also, they were not unique merely in blue collar jobs in contract construction. There were very few Negroes holding white collar jobs in the industry. Of the 488,600 employees in the contract construction industry under the jurisdiction of the Equal Employment Opportunity Commission in 1966, Negroes made up less

than 1 percent of the white collar workers but 17 percent of the blue collar workers.<sup>3</sup>

Because other governmental and nongovernmental agencies are devoting serious attention to apprenticeship and manpower problems, including racial discrimination, the Commission did not see fit to duplicate studies in this field. Yet such information and insights as came to us "because they are in the air," so to speak, appear to us too timely to leave out of this report.

A combination of circumstances have in the past reduced the chance for Negroes to be employed in the building trades. Many of the crafts, enjoying high hourly wages, have not wanted to take in newcomers and have desired to pass on the job opportunities to sons and close relatives. Outsiders have found it difficult to break in, and this has been especially true of Negroes. They were slow to apply, and when they did they often found it difficult to pass the apprenticeship requirements. The lack of education and opportunity in general were reflected in the inability to pass written tests in which arithmetic and other skills were stressed. In addition, some unions did want to keep them out. The Commission recognizes that because of intensive cyclical fluctuation it is often true in the building industry that contractors and builders are unwilling to take on an appropriate number of apprentices. An encouraging note is that more of them have become aware of the importance of developing enough skilled workers for the years ahead and there already has been some improvement in this matter. The result was a low percentage of Negroes in the more skilled and highly paid crafts.

Apprenticeship is only one of two ways that men enter the trade unions, and attention also needs to be given to the other way—learning on the job. This second way occurs because the number of apprentices are not enough to fill the needs when there is a boom in construction work. With labor needs out of balance, contractors must take on people not highly experienced in the particular trade. Customarily, although they are paid journeymen wages, they are kept on simpler jobs, and only after being moved around for some years do they become fully skilled.

What does this mean for Negroes? Ordinarily, they are at a disadvantage in entering the unions by this means, for at least two reasons: (1) they lack the inside knowledge of when labor shortages make it the proper time to seek entry, and (2) they must compete with the most aggressive people who may be shifting from one occupation to another.

<sup>3</sup> Speech by Vincent T. Ximenes, Commissioner, Equal Employment Opportunity Commission, Denver, Colo., Sept. 15, 1967.



It is only simple justice to say that conditions have improved greatly during the last 2 years. An estimated 8,100 Negroes are registered in current apprenticeship programs—nearly twice the number in 1966. Not only are most of the international unions helping in this work but nearly 50 Apprenticeship Outreach programs—efforts at active recruiting of apprentices—are being carried out by local union councils. The craft unions have joined with other groups to provide training programs to prepare youths for the apprenticeship exams. There is still some discrimination, both open and hidden, and much remains to be done. When we began our work nearly 2 years ago, the overall verdict could not have been this favorable. But progress has been made and the unionists who have made it deserve commendation. They should, however, push on with even greater vigor and with still greater cooperation from the local unions. A large increase in the total volume of building will also create many new jobs and permit the minorities to share even more in the general advance. For, as the fishermen remark, “a rising tide floats all the boats.”

*Restrictive work practices and the law: recent developments*

Several recent court decisions and certain National Labor Relations Board decisions have clarified some long-standing questions about the legality of restrictive work practices. Most significant is the 1967 Supreme Court decision in *National Woodwork Manufacturing Association v. NLRB* (386 US 612, 1967), often referred to as the Philadelphia prehung door decision. The case involved a provision in a work agreement between the local carpenters union and the contractors association, which provided that “no members will handle any doors which have been fitted prior to being finished on the job.” The provision was attacked as an illegal secondary boycott under the Landrum-Griffin Act by the plaintiff association, which represented the manufacturers of prehung doors.

The Supreme Court held that the agreement was legal. Such agreements according to the Court, will be upheld where the primary object is to preserve and protect the job security of the union involved. Job security, being a legitimate subject of collective bargaining, may be protected by work preservation provisions even though such provisions incidentally may have the effect of excluding the product of some third party.

A companion case, *Houston Insulation Contractors Association v. NLRB* (386 US 664, 1967), involved a similar job security provision

prohibiting the use of precut insulation around pipes and fittings. The collective-bargaining agreement was upheld against the contention that it constituted a secondary boycott.

The Supreme Court has, unfortunately, been widely misunderstood in these rulings. The door case often is cited as holding that prefabricated components are considered bad by the courts or that a union at any time may refuse to work on a job which uses such components. In fact, the decision states only that exclusion of such products, *where they threaten job security*, may be a legitimate subject of a collective bargaining agreement and enforceable as such.

Later decisions by the NLRB have emphasized that, for such agreements to be legal, they must in fact be directed at protecting the job security of the union which is a party to them. In a number of cases, union action to enforce provisions which exclude various prefabricated components have been held illegal because the provision of the collective bargaining agreement was either not primarily aimed at protecting job security or not for the protection of the particular union signing the agreement.

*A way out and a way forward*

To try to deal with restrictive practices on a case-by-case basis and in the context of the building industry as it exists today offers little hope of success. However the Commission recognizes the widespread existence of restrictive practices from a variety of sources and believes they must be minimized now if the rising cost of housing is to be checked and production rate radically increased.

We must deal with the basic weaknesses of the building industry by greatly increasing the production of housing, and by doing this in such a way as to assure maximum stability to the manufacturers, employers, and workers in the industry.

We further believe that government, as the primary consumer of one-third of all construction put in place annually, and as chief provider of housing for the poor, has important leverage power to help accomplish these purposes. Not only the Federal Government, but State and local governments as well, can play a significant role in this stabilization effort. Of the approximately \$75 billion worth of construction money that goes to contractors in a year, \$25 billion comes from the three levels of government.

To meet the Nation's dire housing needs, underscored so strenuously in other parts of this report, we must increase housing production from the present level of between 1.3 and 1.6 million a year to an annual production of over 2 million units throughout the next decade. In mounting that effort, problems of work preser-

vation by the unions may well be overshadowed by problems of meeting a serious labor shortage.

The Commission does not urge punitive legislative action or government compulsion to gain the abandonment of restrictive building practices. But we do urge trade union leaders

and builders to cooperate to promote efficiency, for example, by way of project agreements. We do think that government can help in many constructive ways. We warn that if restrictive practices in the industry are not reduced, the community may well be forced to take action.



## CHAPTER 5

# Reducing Housing Costs—A Summary

A reduction in housing costs is essential if the housing goals proposed by this Commission are to be met. It is essential for at least two reasons:

(1) It will make it possible for far more people to buy or rent decent housing on the open market without direct Federal subsidies.

(2) It will reduce the amount of subsidies necessary to house those who cannot possibly rent or buy decent housing at their present levels of income.

Reducing housing costs is one of the three crucial means by which an abundance of housing can be made available to the American people. The second of these is to raise incomes sufficiently and at a faster rate than housing costs increase so that far more people can afford to rent or buy decent housing in the private market. The third means is to provide subsidies for housing. In one form or another, all of these means must be used if housing goals are to be met. The various ways in which housing costs might be reduced have been discussed in some detail elsewhere in the report. Here we bring them together in order to demonstrate the magnitude of possibilities.

We believe that efforts to reduce costs should be an integral part of every government housing program. We believe that much greater efforts are needed in basic research and experimentation in new forms of construction and new approaches to building, maintaining, and financing housing. We believe that substantial cost savings can be made short of the introduction of revolutionary new systems by attacking individual items of costs in housing.

**No opportunity to reduce costs should be ignored simply because, by itself, it may not result in dramatic overall reductions in costs.**

**No pretense is made that all of the potential cost-saving items listed below can be applied to any particular situation.**

### *National policies*

A number of steps can be taken through Federal policies which would create the climate for direct or indirect cost savings under both pri-

vately sponsored and publicly subsidized programs.

*Provide an economic climate which promotes continuity of production.*<sup>1</sup>—Neither a private builder nor a government housing program can be efficient if the total number of housing units built each year fluctuates by several hundred thousand and if there is no continuity in funding or administration of government-sponsored programs. Costs skyrocket when the number of units a local builder can produce fluctuates widely from year to year. He cannot organize his work force or his production efficiently. He cannot make optimum savings by buying in quantity.

Creating national housing goals, carrying out the fiscal and monetary policies to meet them, funding government programs at high levels and with continuity over periods of time, and placing housing in the forefront of economic considerations, as has been done in the past with full employment and economic growth—all of these could bring sizable reductions in costs and far greater efficiencies in the use of both private and public manpower and resources. This should result in major reductions in costs in housing construction.

*Reduce the general level of interest rates.*<sup>2</sup>—Other things being equal, the Federal Government should take steps to reduce the general level of interest rates. At times in the past, policies have been followed by the monetary authorities which had the goal and effect of raising interest rates. Basically, to reduce rates means to place greater reliance on fiscal policy and lesser reliance on monetary policy. It also means a number of institutional changes in the financial system which a variety of experts associated with congressional study committees have long advocated.

A 1-percent increase in interest rates from 6 to 7 percent on a \$15,000 house with a 30-year mortgage brings a \$10 per month or \$120 per year increase in interest costs. It adds \$3,600 to the price of the house over the life of the

<sup>1</sup> See Part II, Recommendations No. 2 and 3.

<sup>2</sup> See Part II, Recommendation No. 4 and Chapters 1 and 4 of Part V.

mortgage, not including the added costs of "points" and interim financing.

Mortgage interest rates have increased from a general level of about 4.5 percent in the mid-1950's to 7 percent today. Using the same example as above, monthly interest costs have gone up by \$23.80 and yearly costs by \$285. Over the life of a mortgage, over \$8,500 would be added to the cost of such a house.

It would take \$1,000 more per year in income for a family to afford such a house today than it would have just over a decade ago. At the level of income needed to afford such a house today, about 10 percent of the families in the country could purchase such a house at a 4.5-percent interest rate who could not do so at a 7-percent interest rate. Reducing interest costs is a major means of bringing nonsubsidized housing within the range of a far greater number of people.

*Subsidize efficiently.*<sup>3</sup>—Hundreds of thousands of families will either need subsidies or continue to get subsidies if they are to be housed decently. Subsidies should be provided in the most efficient and least costly way. The least costly way is to use the power of the Federal Government to borrow funds, for it can do so at from 1¾ to 2 percent less than private institutions can. We do not do this now because of its apparent effect on the Federal budget. An expenditure for a housing unit returns principal and interest and is secured by real property and is treated by private business as a blue-chip asset. But the Federal Government treats it as a liability which adversely affects the budget. In fact, we have now adopted the 1-percent interest program in which funds will be borrowed on the private market at much higher rates in order to avoid this budgetary impact. This program will cost much more than it would if the Government were to use its authority to borrow the funds. This is an excessive cost borne by the public in order to avoid biased and uninformed criticism. It is an extremely high cost to pay—either in excessive interest rates or in a reduction of housing units—merely to pander to public prejudices.

One means of reducing housing costs is to face up to this fact.

*Simplify Federal programs and reduce time in planning and construction.*<sup>4</sup>—Vast costs are incurred by the delays in producing housing under Federal programs. Time consumed for planning and constructing public housing, moderate-income housing, and housing on urban renewal sites has been unconscionable. Some considerable speedups have occurred

in the first processing stage as a result of the recommendations of the President's Joint Inter-Agency Task Force. Others have been achieved by the turnkey method for public housing. The Commission has made many recommendations on this subject. There should be more turnkey projects. Communities and housing authorities with proven records should be able to bypass many of the time-consuming procedures. Seed money for 221(d)(3) sponsors will help. In building, time is money. The program time schedules should be cut in half.

*Authorize extraterritorial leasing.*<sup>5</sup>—There are many other ways to save money. Major economies can be obtained by giving central city housing authorities the right to lease existing houses outside their immediate jurisdiction but within the metropolitan area. We recommend this, with appropriate safeguards, in part II. Its effect on costs would be to place a larger number of needy families in housing where land and construction costs are lower. In the central city, land costs are extremely high and multi-family construction is more costly than single-family housing. So use of cheaper outlying sites is one way for the government to get more for a dollar of housing subsidy.

#### *Tax policies*

*Reduce the negative impact of the property tax.*—Our studies show that the property tax is equivalent to a 24-percent sales tax on housing in metropolitan areas. (The housing portion of the property tax amounted to 19 percent of the \$34.9 billion cash outlay in these areas by homeowners and renters for housing. Excluding the tax payments, in the customary way of figuring other consumption taxes, the figure is 24 percent.)<sup>6</sup> It is inconceivable that society would consciously place such a tax on a basic commodity such as food or shelter. But it has done so, either unconsciously or of necessity.

It is not possible to repeal property taxes. But it is possible to reduce the proportion of the property tax in the total tax burden by finding alternative and fairer means of financing public needs at the local level. We recommend a number of these in part IV. They include a shift to income taxes and incentives for States to do so, block grants from the Federal Government to localities, and fairer assessment and administration practices to improve their effects on housing. By assessing both land and buildings at market value, instead of underassessing land, some shift in the tax burden would occur to offer a stimulant to construction.

<sup>3</sup> See Part II, Recommendation No. 5.

<sup>4</sup> See Part II, Recommendations Nos. 9 and 10, and Chapters 3, 5, and 6.

<sup>5</sup> See Part II, Recommendation No. 15.

<sup>6</sup> *Impact of the Property Tax* by Richard Netzer, Commission Research Report No. 1, Washington, D.C., 1968.



*Revise Federal income taxes.*<sup>7</sup>—Federal income taxes on commercial housing help to promote slums. They tend to discourage maintenance and improvement, and encourage fast turnover. We advocate that without loss of further revenue the Internal Revenue Code should be revised to reinforce nontax efforts aimed at encouraging new construction, rehabilitation, and maintenance, and discouraging the present practice of awarding deductions for depreciation and maintenance when no maintenance is required and excessive depreciation is allowed.

#### *Land acquisition*

We have documented the phenomenal increase in land values which has taken place and noted its effect on the cost of housing.<sup>8</sup> There is every reason to believe that this trend will continue unless some special public action is taken to change it. The following approaches can limit future land value increases:

*Exploration of the potential benefits of new taxes on land and land value increases.*<sup>9</sup>—The imposition of new taxes on land would be one of the most comprehensive approaches governments might take to retard or reverse the rise in land prices. Because of the complexities of various tax approaches, we have discussed the major proposals and have recommended that studies be undertaken immediately by both the States and the Federal Government to explore in depth the feasibility and desirability of various approaches.

*Public purchase of land in advance of development, and leasing rather than selling of land acquired by the government.*<sup>10</sup>—While the primary purpose of advance purchases of land by the government may be to control development, an important byproduct is the capturing of increases in land values for the benefit of the public. Land so obtained could be resold at market price, with the gain used to subsidize housing in other places or to meet other pressing social needs. By leasing rather than selling all land acquired, the government would not only be able to reassemble the land quickly at a later time and achieve greater control over its use, but would also gain the benefits of increased values through adjustments in lease terms.

*Public assistance in land assembly.*<sup>11</sup>—Because the value of individual lots within an area to be assembled can become highly inflated as it becomes known that they are needed to complete the parcel, and because of the long time required

to complete assembly by purely private means, public assistance in assembling land can significantly reduce the land cost component of new development.

*Elimination of excessively restrictive zoning practices.*<sup>12</sup>—Present restrictive practices have the effect of increasing the price of land for housing by unduly restricting its supply. Several recommendations in part III are directed to this problem. They are designed to make local governments more responsive to the needs of lower income families for reasonably priced housing sites by reallocating land-use control power, requiring conformity of local action to a metropolitan housing plan, minimizing inducements for "fiscal" zoning, encouraging large-scale developments in which higher densities can be achieved without sacrificing amenities, and facilitating challenges to needlessly restrictive zoning practices.

#### *Site improvements*<sup>13</sup>

The costs of site improvements have become a substantial factor in the cost of new housing in a relatively short period of time. Before World War II, subdivision regulations were often nonexistent or extremely lax, permitting developers to provide little in the way of even the most basic utilities. As a result, localities often were burdened with the installation of roads and utility lines or with the repair of shoddily constructed facilities. Since World War II, improvements have been substantially upgraded, with much of the burden placed on developers through local subdivision regulations. To prevent unnecessary cost increases due to site improvements while providing for adequate improvements to serve new development, the Commission has made the following recommendations:

*Formulate and promote better standards.*<sup>14</sup>—Many of the standards now incorporated into subdivision regulations are based on tradition or whim rather than on information about actual needs and the performance of various materials. As with building codes, there is evidence that some communities impose excessive requirements which needlessly increase costs. We have recommended the establishment of a National Institute of Environmental Sciences that would, among other functions, conduct a continuing study of standards for site improvement and disseminate its findings for incorporation into local ordinances.

*Eliminate restrictive land use practices which results in higher site improvement costs.*<sup>15</sup>—Restrictive practices, as we have noted, result

<sup>7</sup> See Part IV, Chapter 7.

<sup>8</sup> *Three Land Research Studies*, by Allen Manvel, National Commission on Urban Problems, Research Report No. 12.

<sup>9</sup> See Part IV, Chapter 6, Recommendations No. 1 and 2.

<sup>10</sup> See Part III, Chapter 2, and Part II, Recommendation No. 28.

<sup>11</sup> See Part III, Chapters 1 and 2.

<sup>12</sup> *Ibid.*

<sup>13</sup> *Ibid.*

<sup>14</sup> *Ibid.*

<sup>15</sup> *Ibid.*

not only in higher land costs but also in added costs for site improvements. As lot sizes increase, and particularly as wider lots are required, more linear feet of improvements are required to serve a single dwelling unit. The Commission's recommendations aimed at curbing restrictive practices and providing for wider choice in the selection of housing sites should help to reduce these costs.

In addition, recommendations aimed at reducing sprawl and promoting the large-scale planning of new development should help to reduce site improvement costs by reducing the need to extend utilities out well beyond existing development, and by allowing for the more economical clustering of structures.

#### *Improvements in building codes*<sup>16</sup>

*Provide uniformity.*—A major weakness of building codes is their lack of uniformity both in requirements and in enforcement from town to town. This prevents the application of mass-production methods in metropolitan areas and, of course, in such wider areas as States or regions. Because of diverse requirements, no builder can construct the same house to the same specifications within the Pittsburgh or St. Louis or Chicago or Los Angeles metropolitan areas, but must make changes each time he builds in a different jurisdiction. The codes, therefore, not only prevent industrialized housing from being used efficiently, but prevent even the conventional builder from using efficient methods. While most of the provisions of the national model codes are reasonably up to date, they do not apply uniformly over a metropolitan area or region. And even when they do apply, a local inspector may arbitrarily prevent even the use of materials which the codes allow.

*Permit new products and processes.*—In many cases, the local application and administration of codes prevent the use of plastic pipe, 2-by-4 studs on non-load-bearing walls more than 16 inches apart, 2-by-3 studs on non-load-bearing walls, plumbing trees, and electrical harnesses, and a variety of other prefabricated or modern materials or methods which can reduce housing costs.

Use of new materials and uniformity of application over a large enough area to allow specialization to occur must be brought about by the reform of building codes.

#### *Use of industrialized housing*<sup>17</sup>

Savings in housing costs can be made by moving to more efficient methods of production.

An important way of saving time (and thus

money) is to use the PERT or critical path method. In essence this is a system of working backward on a time scale from the completion date, so that all activities which must be performed fall in place in the proper order and with the minimum of lost time. By charting out all operations, it becomes possible to track out items that are off schedule and put on pressure soon enough to avoid delay to the whole project.

In addition, even the smallest conventional builder uses many products and processes that are factory produced. This is now done in varying degrees and with varying results.

The production of panels or larger parts in the factory and their assembly on the site can provide a degree of additional efficiency, depending upon the amount of fabrication done in the plant.

Beyond that, factory production methods are used on the site itself. This is essentially what a large-scale, mass builder does.

The production of entire housing units within a factory takes at least two forms. One of these, in the case of mobile homes, uses more or less conventional methods of construction but performs them in the factory. Some savings come about as a result of the specialization of workers. Carpenters, for example, move from one mobile home to another, much as carpenters at the construction site of the largest merchant builders move from one house to the next and repeatedly perform the same operation. The savings result largely from specialized production performed the year round. These savings may be offset by transportation costs, however. Savings may be as great at the site itself.

A further refinement is the use of machines and the substitution of capital for labor in the actual production of the parts, whether they be panels assembled later at the site or parts assembled in the factory, but produced by machines, not by men.

One finds various combinations of these methods of industrialized production.

The following is a list of the advantages which can result from some or all of these methods of larger scale or mechanized production:

*Reduction in hours of labor needed.*—One factory-mechanized production company estimates that it can produce units in a factory with half the hours of labor as are needed on the site.

*Substitution of industrial for craft labor.*—In metropolitan areas where housing is to be erected in the central city, savings should result from the substitution of industrial labor in the factory for craft labor at the site. The differences in hourly costs range from industrial labor at \$2.90 to \$3 per hour to craft labor at a mini-

<sup>16</sup> See Part III, Chapter 3, and *Local Land and Building Regulation*, by Allen Manvel, National Commission on Urban Problems, Research Report No. 6.

<sup>17</sup> See Part V, Chapter 2 and Part V, Recommendations No. 2, 3, and 4.



imum of \$5, but often at \$6 or \$7 and sometimes as high as \$10. Industrialization should require fewer hours at lower hourly rates. The capital and overhead costs of moving labor inside a plant would reduce the amount of these hourly differentials. The savings come from the greater specialization in the use of labor.

*Work independent of weather.*—Work inside the factory would be independent of the weather and not interrupted by snow, rain, or extreme cold.

*Quantity purchases.*—Large-scale factory production means savings on material costs, both through discounts for quantity purchases and through direct purchase from producers and the elimination of middlemen. These savings could also be made by large-scale conventional builders.

*Savings in interim financing.*—Because of the savings in time, there is a reduction in the cost of interim financing. The time savings can range anywhere from 3 to 6 months, depending upon the type and volume of construction. Present carrying charges range from 4 to 5 percent, and some of these could be reduced.

*Lower builder and professional fees.*—A reduction in other elements of construction costs will normally result in lower charges for fees, which are tied to construction costs. In addition, the creation of a high volume, stable level of production will eliminate some of the risks and uncertainties reflected in the present level of fees and profits. The use of industrialized building techniques, and particularly production at a large scale, will allow for spreading these costs over a large number of units and for the more efficient use of professional services.

*Savings on vandalism.*—A major cost of conventional site construction is vandalism during the period of building. This is greatly reduced under factory construction methods.

*Absence of extras.*—Industrialized housing does not permit the numerous last-minute changes which bring increased costs.

*No delay because of lack of materials.*—With factory production, delays at the site caused by the lack of some specific item or material are eliminated.

*Reduction in some maintenance costs.*—Because of the nature of the materials, there may be some reduction in maintenance costs as a result of factory production.

*Conclusions.*—Not all of the potential savings listed here flow from factory production. They result from large-scale and more efficient production brought about through a variety of

methods. But their application over a wide scale can bring savings.

### *Large-scale production*<sup>18</sup>

In the past, industrialized housing production has lacked a mass market because of code, zoning, and marketing limitations, or other restrictions. It is important that the Proxmire amendment in the 1968 Housing Act, calling for the production of 1,000 units a year for 5 years of five different well-designed housing prototypes, be carried out. This should demonstrate whether costs can be reduced, and by how much. The successful housing units could be used in the large-scale public programs authorized in the act to provide 500,000 housing units a year for low- and moderate-income families.

### *Improvement of work practices*<sup>19</sup>

The Commission has suggested a number of important approaches to the problems of uncertain labor conditions which result in restrictive work practices and high hourly wage rates. We have recommended government efforts to reduce seasonability in employment by awarding contracts and scheduling construction work during lull periods. Our recommendation to allow HUD to enter long-term contracts with qualified local housing agencies should help to assure more continuous work for local labor. More broadly, our recommendation concerning the volume of housing needed over the next decade, the various means for achieving that volume, and the reduction of major cyclical variations in construction through national fiscal and monetary policies, all point toward a more assured position for construction labor. Reducing uncertainties will help to assure that increases in wage rates are geared to increases in productivity and will eliminate the resistance of labor to new forms of construction which may appear to threaten jobs in the short run.

### *Financing costs*<sup>20</sup>

The cost of financing—permanent and interim financing and closing costs—is one of the major elements of the price of housing. Moreover, the availability and cost of money have broad effects on the stability and level of activity in the building industry, and therefore on the costs of labor, entrepreneurial services and other cost elements, and on the attractiveness of investment in new materials and processes which might result in reduced costs. The Commission has suggested the following approaches to reducing and stabilizing financing costs:

*Opening up new sources of capital for the mortgage market.*—The Commission believes

<sup>18</sup> See Part V, Recommendation No. 8.

<sup>19</sup> See Part V, Recommendations No. 2 and 4.

<sup>20</sup> See Part V, Chapter 3.

that the authority of the Federal Home Loan Bank Board to issue long-term bonds with the proceeds going to expand the lending activities of the home loan banks is important. More generally, negotiable bonds issued by financial institutions and backed by government-insured mortgages are needed instruments. Both will attract mortgage funds from sources that have hitherto been reluctant to invest in them because of the time and complexity involved in managing the investment. One particular source, which to date has been largely untapped, is pension funds, for which such bonds might prove most attractive.

*Expanding the flow of mortgage funds from all sources.*—The Commission has urged throughout this report that housing must no longer be relegated to afterthought status in the formation of national economic policy and that strong efforts be made to reduce the general level of interest rates. The establishment of a national housing goal, stated in terms of actual numbers of units to be constructed, and the requirement of an annual housing message by the President should help to improve the situation and attract mortgage funds from widespread sources. We have also recommended action to modernize State usury laws to bring them into line with the realities of modern interest rates and allow the mortgage market to attract needed funds. Revision of cumbersome foreclosure law provisions which deter investment in home mortgages, to the extent that it can be done without infringing on important safeguards for occupants, should also help.

*Improving local recordkeeping relevant to title searches.*<sup>21</sup>—The Commission has recommended, as the most important step in reducing closing costs, the improvement of local land record systems. Better indexing and filing can be important. This is an area where the nature of the problem is such that it lends itself to the use of computers.

#### *Cooperatives*<sup>22</sup>

Many of the savings available to members of housing cooperatives are not unique to cooperatives as such. The deduction of interest and property taxes from the Federal income tax of the resident, savings due to the initial production of a large number of units, savings on closing costs or legal fees which the cooperative receives by acting on behalf of a number of people, etc., are savings which others receive or which result from production on a large scale and not merely from the cooperative form of ownership. However, these savings would not

be received by those in cooperatives except for the fact that they organized together in this form of endeavor.

If they rented, they would not get interest and tax deductions. Savings from large-scale production would go to the original owner or landlord instead of the tenant. Thus, the cooperative form of organization can provide housing at less cost to those who take part in it than would otherwise be available.

Extension of this form of ownership could, therefore, bring a reduction in housing costs.

#### *Other costs*

The Commission's major concerns have been with the cost items just discussed. This focus should not suggest, however, that we consider other items of cost either unimportant or not susceptible to reduction. Every effort should be made to reduce costs of maintenance and repair, insurance, heat, electricity, furniture, and other items which are essential parts of the cost of a dwelling unit.

We are also aware of the costs involved in municipal services, the costs and benefits to be derived from jobs, health, and education, and numerous other areas related to housing and the urban environment. These, however, were not under our direct jurisdiction and we have not, therefore, addressed them in the same manner as the numerous and detailed items summarized in this chapter.

### Recommendations

In addition to the many proposals to reduce costs made throughout the report, many of which are summarized in chapter 5, the Commission makes the following recommendations with respect to the subjects discussed in this part of the report.

#### BUILDING PRACTICE RECOMMENDATIONS

The Commission believes that an increase of manpower and the wider use of prefabricated approaches to construction can be accomplished by relating them to the opportunities for increased housing construction. This increased total volume should provide a basis for new agreements encompassing more efficient work rules and building practices from both management and labor in return for contractual arrangements which provide for continuous employment of workers and volume production by builders.

The essence of what we propose is a trade-off, with society finding ways through public policy to assure abundant and steady work in return for the relaxation or elimination of rules that obstruct the advance of technology.

<sup>21</sup> Ibid.

<sup>22</sup> See Part II, Chapter 4.



### **Recommendation No. 1. Reducing seasonality in the construction industry**

The Commission recommends that Federal, State, and local governments undertake programs to reduce the seasonal fluctuations affecting the construction industry by (a) awarding contracts and scheduling work during that part of the year in which construction is at a low level in order to spread construction work and to achieve the maximum stability of building activities, and (b) providing incentives for winter operations by basing schedule and work progress on alternate bids.

Seasonality of building activity is one of the significant contributing factors to contractual arrangements which limit some otherwise desirable practices because of job security. By providing construction work wherever possible over the entire year, an increase of work could raise employment for the average construction worker from 1,400 to 2,000 hours annually. It is hoped that the assurance of year-round work would provide the climate for changes in practices based on previous insecurity of employment.

### **Recommendation No. 2. Reduction in restrictive work practices**

The Commission recommends amendment of the National Housing Act to provide that State and local agencies applying for or receiving Federal assistance for the construction of housing or community facilities be authorized to promulgate, between construction management and labor, specialized agreements covering specific large projects or multiple smaller projects and approve such agreements for inclusion in the construction contracts to be awarded. These agreements would be of a type to insure efficient, economical, and safe work practices and conditions, allow and encourage new technology and foster adequate training of mechanics, apprentices, and residents of the area. Should such procedure fail to arrive at an agreement to exclude from the work specifications of construction contracts for such housing or facilities such labor and work practices, then the Secretary of Housing and Urban Development, after consultation with the Secretary of Labor and following public hearings and subject to judicial review, shall exclude work practices considered to be unnecessary and undesirable additions to the cost of such housing and facilities.

With the enactment of the Demonstration Cities and Metropolitan Development Act of

1966, the Congress for the first time decided to employ the leverage of a Federal grant program to secure concessions in local labor and work practices on behalf of the long-range objective of urban rehabilitation. Under its provisions, the Secretary of HUD and the Secretary of Labor have negotiated with trade unions regarding certain phases of the model cities program. This recommendation would extend the same approach to the general problem of housing costs.

### **Recommendation No. 3. Prompt initiation of special technology demonstration program**

The Commission recommends that HUD promptly carry out the congressional authority to construct 25,000 dwelling units in a special technology demonstration program which this Commission recommended and which its Chairman proposed to the Congress. Under the Proxmire amendment the Secretary of Housing and Urban Development is directed to contract for the construction over a 5-year period, at a scale of 1,000 units a year, of a limited number of different housing construction systems which would promote construction techniques to seek substantial reductions in construction costs of desirable design quality. If successful, the cost reductions found possible should be applied to public housing, to low-interest rate programs, and to other programs authorized by the 1968 act.

The primary objective of this program is to stimulate technological innovation. Contracts would be awarded on the basis of proposals that aim to achieve economies through mass production without sacrificing the goal of well-designed, quality housing. The choice of areas for such projects would be based upon the readiness of communities and community groups to waive restrictive building regulations and current work rules in those instances where the proposed technological innovations otherwise would be inhibited.

A necessary part of this experimental approach would be to provide for a committee of impartial appraisers to make design and cost comparisons between the various experiments and between the experiments and conventional construction.

### **Recommendation No. 4. Long-term housing programs in exchange for more efficient building practices**

The Commission recommends that Congress amend the Housing Act to authorize the Secretary of Housing and Urban Development to enter into long-term commitments (up to a cumulative ceiling over a 10-

year period) with local public housing agencies where there is agreement to eliminate local building practices that increase construction costs, to use new labor-saving methods and materials, and to provide employment opportunities to residents of slum areas. Under this program, the Secretary of Housing and Urban Development would be authorized to arrange with State and local housing authorities, or groups of local housing authorities, or metropolitan housing authorities, for long-term, large-scale housing to stabilize housing construction, reduce costs, and provide greater employment opportunities by minimizing seasonal and cyclical fluctuations and by assuring private enterprise of a continuous, receptive market over long periods.

Selection of the urban areas that would take part in such a program could be based upon findings by the Secretary of Housing and Urban Development that there is a severe local housing shortage for low-income families, that local construction costs exceed the national averages, that unemployment is high among residents in local blighted areas, that local governments are ready to waive restrictive provisions of codes and regulations that cause excessive costs, and that representatives of the local building industry are willing to enter into project agreements to waive practices causing excessive costs, or that prohibit the use of new labor-saving methods and materials, or deny employment opportunities to residents of local slum areas.

Under this program, it would be possible for a local housing authority, or a group of authorities, to contract with one or more successful low bidders for construction over long periods, to a maximum of 10 years, under appropriate conditions such as adjustment of costs in later years on the basis of an accepted building cost index, or other local cost yardsticks, incentives to builders to achieve cost reductions, arbitration mechanism for resolving work practice rules causing excessive costs, and agreement by local officials to accept new methods and materials approved by the National Institute of Building Sciences. The unique feature of this program is that a single contractor, or a joint venture, would be assured of continuous work under the above-described conditions. Inasmuch as the work force would also be assured of long-term employment, present costly building practices could be eliminated.

Furthermore, those types of housing construction which were successful under the provisions of section 108 of the 1968 act—the Proxmire amendment—could be used extensively in such a long-term program as proposed here.

#### FINANCING AND MORTGAGE MARKET RECOMMENDATIONS

A number of proposals dealing with financial institutions and the money market were adopted by the Congress in the 1968 Housing Act between the time the Commission agreed to them early in the year and the publication of this report. This is particularly the case with respect to attracting funds into the mortgage market through the issuance of long-term securities backed by Government-insured or guaranteed mortgages, and with respect to the nature and functions of the new FNMA and GNMA. As a consequence, we make few detailed recommendations in this area, apart from the more general suggestions in the chapter on financial institutions in this part of the report, in order to give the new institutions and instruments an opportunity to be tested.

#### Recommendation No. 5. Modernization of State usury and foreclosure laws

The Commission recommends that the Department of Housing and Urban Development, in consultation with the American Law Institute and other appropriate bodies, draft a uniform usury and mortgage act for adoption by the States. Such an act would provide for (1) a uniform usury rate for individuals and corporations, and (2) a uniform foreclosure law. The Commission further recommends that, after reasonable time has elapsed for State action, the Congress amend national housing legislation to condition Federal housing assistance programs upon adoption of the uniform usury and mortgage act.

The effect of this recommendation would be to increase the flow of mortgage investment and make mortgages on property in any State marketable throughout the United States.

State control of interest ceilings on credit purchasing or on the lending mechanism aside from mortgages has a rightful place arising from State concern for the welfare of its citizens. Releasing the ceiling on mortgage rates, however, does not strip the mortgage instrument of all control; the multitude of control factors in the nationwide mortgage market as well as in Federal Government policy actions provide ultimate bounds. The alternative is seen to be continued State legislative action pushing up the mortgage rate in State after State to prevent capital from draining away to neighboring States or into other more productive investments.

The Commission recognizes that the benefit of such a relaxation is likely to be felt only in the short run, and maintains its support for



longer range, more basic improvements (such as that listed below).

State laws which insure slow and costly foreclosures now hamper the borrower by making it harder and usually more expensive for him to get a mortgage. It is bad for the mortgagee, because he may have to carry the house for 2 years after the owner defaults and moves away. Such a procedure may have made sense a hundred years ago, to save the farmer from losing the old family homestead to the greedy moneylender after the failure of a single crop. It makes no sense now in these times of 95-percent mortgages, 30-year loans, walkaways, and token amortization.

No lender today wants to foreclose if he can help it. Practically all are glad to tide distressed homeowners over a temporary crisis if the homeowner shows good faith, so it is doubly foolish to make foreclosure difficult if the mortgagee is forced to act. The easiest way to modernize foreclosure is to allow present procedures to stand but to add, as an alternative, deeds of trust with a very short redemption period. Several States have already adopted this procedure.

#### OVERHAULING CLOSING COST LAWS AND PROCEDURES

Three types of effort appear desirable in the area of closing costs. First, an effort needs to be made to reduce the overall costs associated with title insurance and attorneys' fees; second, there should be a reallocation of such costs, placing more of the burden on sellers and mortgage lenders and less on home purchasers; and third, prospective home buyers should be made more aware of the costs at an earlier stage in the negotiations.

#### **Recommendation No. 6. Improvement of closing cost systems**

The Commission recommends that localities, with State aid, undertake major efforts to improve their systems of land records. Such improvement should consist of a centralization of all public records or copies of public records bearing on title to property, a more functional indexing and filing of such records to facilitate title searching, and the early computerization of land records.

At the present time, the high costs of title insurance is in large part attributable to the difficulty of making title searches from public records. The chaotic state of public recordkeeping has caused the larger title companies to develop their own little plants, at a cost which is passed on to the home buyer. Small companies, where they exist, can only compete by taking shortcuts in their searches which may increase

their risk. The result is that in many cities only a few large companies are operating, and the competitive impetus for improving services, cutting costs, and eventually reducing prices is lacking. Furthermore, even the larger companies experience needless costs. In some cities, for example, it is not uncommon for title company employees to have to visit 15 or more different government offices to check records bearing on the quality of the title. The labor costs involved must be passed on.

The greatest promise for reducing these costs is computerization of public records, and some efforts are currently being made in this direction. As data retrieval and scanning devices come into greater use, costs will fall. In addition, smaller companies, which presently cannot afford the substantial investment in a title plant, will be able to participate more effectively in the market and bring greater competition among companies. Where attorneys handle title searches, a reduction in the time required should produce commensurate reductions in fees.

#### **Recommendation No. 7. Limitation of closing cost liability**

The Commission recommends that States enact legislation limiting the items of closing costs for which a buyer of a dwelling unit may be charged. In particular such legislation should preclude the buyer's having to bear the costs of title search and insurance, and transfer taxes. The Commission further recommends that the Federal Housing Administration and the Veterans' Administration should alter present regulations to preclude the buyer's bearing the costs of these same items in connection with properties purchased with Government mortgage guarantees.

At the present time, in most places buyers bear most of the costs associated with closings. In particular, except for the Midwest, they bear the bulk of the costs associated with searching and insuring title. Since it is the seller who purports to be passing good title, it would seem perfectly equitable to shift these costs to him. Similarly with transfer taxes and recording fees, there is no inherent rightness in having the buyer bear such costs. As to the Federal transfer tax, repealed at the close of 1967, the legislation specifically called for the seller's bearing the tax.

The buyer is, of all the interested parties, generally the one least able to bear additional costs. The seller, even where he is not a developer and is in the same income bracket as the buyer, is at least in the position of receiving a substantial sum from the sale. And where an individual seller is involved, he may or may not pass this

added cost on. Where a developer is involved, he is likely to pass the cost on to the buyer. He is, however, in a stronger bargaining position vis-a-vis the title company or attorney than is the average buyer, and his interest in keeping costs down will cause him to try to get the best possible price for title insurance. Furthermore, the mortgage lender will be more likely to exert his bargaining power, which is often substantial, where the burden is not largely on the buyer.

At present VA and FHA, while limiting the service charge which mortgage lenders may charge, permit the buyer to pay for transfer and recording taxes and fees and for title examination and insurance at customary rates prevailing in the locality. The effect of prohibiting payment of these items by the buyer would be to shift them to the mortgage lender or seller, at least in the first instance. Since buyers under the FHA and VA programs are in the group that can be especially hard hit by closing costs, a change in these regulations would have important effects.

#### **Recommendation No. 8. Requirement of advanced disclosure of closing costs**

The Commission recommends that States enact legislation requiring real estate brokers to explain to prospective purchasers, as

**part of their discussion of price, what closing costs they will be required to pay and the approximate amount of such costs.**

Closing costs take on an especially burdensome aspect because they often come as a surprise to the buyer at the moment of closing. Since the prospective home buyer is often desirous of buying the most expensive home he can afford—seeing his purchase as a sound investment as well as hoping to provide his family with the best possible home—he will make his calculations based on a very tight budget. Furthermore the time of moving is usually a time during which many extra costs somehow arise. Suddenly the home buyer is confronted with the need to produce several hundred dollars to cover closing costs at a time when he can least afford them, and he may even find it necessary to borrow money at high personal loan rates to pay for them. Thus he begins his homeownership on a precarious financial footing.

Brokers, for obvious reasons, are also anxious to sell the most expensive house which the buyer thinks he can afford. In their eagerness, they sometimes neglect to inform the buyer about the extra cost involved in the closing, which loom especially large since they require an immediate outlay of cash. It seems reasonable to insist that the broker inform the buyer as a normal part of his service.





# Part VI. Improvement of the Environment

## CHAPTER 1

### Environment

The Commission firmly believes that, no matter what else the Nation attempts to do to improve its cities, America will surely fail to build a good urban society unless we begin to have a new respect—*reverence* is not too strong a word—for the natural environment that surrounds us.

In many areas, the, water, soil, timber, scenery, and mineral resources that nourished our civilization have been desecrated by the people who were sustained by these gifts of nature, and who still depend upon them for their very survival.

Many urban Americans have lost much of their direct touch with nature. They do not know where their food or water comes from; they do not sense the rhythm of the seasons nor understand the interactions between weather, plants, and animals; they do not feel the same sense of caretakership for a part of the earth as did their rural forebears or as do farmers of today.

But none of us can afford to be ignorant or silent about what the despoilers are doing to our environment. We must respond to growing reports of smog-choked cities, air pollution alerts, communities drying up, industries fleeing, people thirsting for lack of water supply, lakes dying, bird species threatened by chemical poisoning, and all life jeopardized by radiation waste hazards.

The writings of generations of great Americans testify to the inspiration they received from the beauty of the land. They felt ennobled by their healthful, lovely surroundings. It would be expecting the impossible to think that those members of our society who find themselves in the midst of today's spoil, neglect, and urban decay are not also affected by their environment. To walk the slums of America, even intermittently as the members of this Commission have done, is to know that constant contact with filth and ugliness can be as harmful to esthetic and moral sensibilities as the pollutants we breathe can be to our bodies.

While the flight to the suburbs may be a personal solution for some—an escape to cleaner air, more flowers, less dust, cooler nights, more elbowroom, better garbage-and-trash service—it is no solution in the wider sense, any more than the escapees from a totalitarian state solve the problems they leave behind. The suburban “escapees” have, in fact, helped to magnify the environmental problems which, during the domestic half of their lives, they can abandon. The freeways they traverse back and forth to the inner city become corridors of massive noise and air pollution which render adjacent blocks much less habitable. And they take from the central city some of the tax and political pressure which otherwise might be directed toward a real solution of the environmental hazards.

The larger picture is even more disturbing. The national environmental problems we have created are enormous. Every 20 years, American industry doubles the amount of chemical waste it discharges into water. The boiling water discharged from powerplants—known as thermal pollution—is increasing by 20 percent a year, and only 55 percent of our present urban population is adequately served by municipal waste treatment plants.<sup>1</sup>

The air pollution problem is equally grave, and cannot be comprehended merely by measuring the amount of discharged waste. The chain reactions and transformations which occur when pollutants interact with sun and moisture add a relatively unknown component to the total picture, and increase our concern over the effects of various levels of pollution on human health.

In seeking solutions and directions in the specific areas of the Commission's mandate, we found environmental issues crucial in every area. One of our central concerns is housing. But it is impossible to conceive of good housing downwind from a factory spewing ashes and noxious gases, in neighborhoods so poorly

<sup>1</sup> By 1980, the waters that receive treated waste will need as much oxygen to purify themselves as exists in the normal dry-weather flow of every river basin in the United States.



served by local government that trash and filth dominate the scene, in sections where open sewers or seepage from septic tanks spread disease, or adjacent to rivers or ponds that would poison or infect anyone who used the water for swimming.

Similarly, this Commission's concern with rational land use patterns cannot be divorced from what the Nation has done, is doing, or intends to do about resource management. Efforts to control air and water pollution, prevent scenic defacement, and treat wastes of all kinds will be important in determining where old cities will stagnate, where new communities will develop, where industry will expand, where people will move, where vacationers will spend their dollars, where local economies will prosper or suffer. The economic classification systems now being developed by State and Federal water and air pollution agencies will have obvious impact on land use planning and thus should establish certain patterns of constraint for the development of statewide land use plans.

Environmental issues also provide compelling arguments for creating new governmental mechanisms. Conservation districts and agencies like the Tennessee Valley Authority suggest that effective "local governments" for conserving the environment need to be geographically coextensive with the problems they seek to control. If community A's water supply is endangered by action of community B upstream, community A cannot cope with this problem unless both communities are somehow linked in a common association. It is now clear that an entire watershed is the logical boundary for a local government dealing with water quality, water supply, water pollution, siltation, flooding, and water recreation. An entire "airshed," similarly, is the natural boundary for dealing with atmospheric problems, since meteorological conditions set wind currents and directions, and divide the continent's air space into semi-contained and relatively fixed air masses.

The spotlight thrown on our air and water pollution problems by the kinds of specific crises discussed later in this chapter has begun to arouse public indignation and concern. Attempts at coordination are being made at all levels of government. But the equally critical problems of solid waste disposal have not been brought to public attention in the same dramatic way.

Today solid wastes from urban areas amount to 1,020 million pounds daily—185 million tons per year. The collection and transportation of these wastes (which account for from 75 to 85 percent of the total cost of urban solid waste disposal) has scarcely changed in the past 70 years. Trucking refuse more than 20 miles from

its source is hopelessly uneconomical for city governments, and finding suitable land any closer is growing more difficult with every day of urban expansion.<sup>2</sup> The actual incineration of solid wastes can be vastly improved by applying existing technology. But the new and efficient incinerators are expensive, and many areas continue to rely on unsightly and unhealthful open dumps—which pollute air, land, and water—and on inefficient small incinerators in apartments and factories.

In addition to the incineration method of solid waste disposal, sanitary landfill is a useful technique that simultaneously may convert unusable ravines or other sites into land that can serve for parks and various public purposes. Landfills improperly located may pollute underground water—but this and other dangers are well defined after several decades of experience.

A more recently developed alternative for handling solid wastes is the compression or compaction method. Great strides have been made in Japanese cities, Chicago, and a number of industries, in the use of machinery that crushes large volumes of scrap into manageable solid bales.

State and regional planning would allow pooling of resources and economies of scale in exploration of these techniques. This is essential for ultimate control of the solid waste problem, as well as the problems of air and water pollution.

Since pollution recognizes no political boundaries, watershed, airshed, and solid waste disposal problems need and deserve strong state support, and, where these watersheds and airsheds cross State boundaries, strong interstate associations. If effective local or regional agencies do not come into being rapidly enough to save and restore our natural heritage, the recent trend of Federal interest and intervention is bound to gain momentum.

If 20th-century Americans are to save their cities and the country from abuse, they must act on the principle that the land—as Jefferson long ago stressed—is held in trust by the living for future generations. We do not own the land in the same sense that we own something we build or create. The land, water, and air are the birthright of all men, and the privilege of using a portion of that birthright carries with it obligations to the rest of mankind, living and yet unborn. Earlier Americans, arriving here land-starved, found a seemingly endless domain

<sup>2</sup> These problems are discussed in more detail in, *Solid Waste Handling in Metropolitan Areas*, a study prepared for the Surgeon General's Advisory Committee on Urban Health Affairs and reprinted by the U.S. Department of Health, Education, and Welfare, Public Health Service, December, 1966, 41 pp.

of rich timber, animal pelts, waterpower, panoramic wonders, farm produce, and townsites open to all who had the enterprise and energy to benefit from them. Because the domain seemed endless, many exploited and destroyed, thinking that in so doing they were enriching themselves without really hurting those who followed. They did much damage, but our potential for destruction of the environment today is vastly greater; resources which could serve the needs of future generations for years are in danger of being all but destroyed within a single generation.<sup>3</sup>

The idea that the builder, the landlord, and the community must assume the duty of conserving resources while enjoying the privilege of using them is beginning to be accepted in theory, but it is sadly overlooked in practice. It is a distortion of the concept of freedom that a man or organization should be free to destroy vital water and air; that a community, in the name of economy, should allow solid wastes to lie in streets and alleys; that a business, in the name of profit, should subject its neighbors to intolerable noise, odors, or ugliness; or that developers, in the name of progress, should destroy the trees and beauty of the landscape.

It is easier to recognize the duties inherent in the privilege of land use than it is to establish public controls to enforce these duties. But the possible danger of interfering with traditional rights must be set against the real and present dangers to health, to esthetics, and to the economy stemming from blatant exploitation and disrespect for the environment. We have been, in most cases, too timid in defining public rights and too lax in enforcing the limited rights set forth. Now, we of this generation have a last chance to prevent America from becoming a wasteland. It is a difficult, costly, and crucial task, for no urban program can succeed if the environment is ignored.

#### *Environmental abuses*

While America has established many fine National, State, and local parks, conserved a number of watersheds, begun to safeguard the scenery along major highways, and taken many separate actions against air and water pollution, the briefest reading of existing abuses suggests the tremendous job we face in restoring and preserving our natural heritage.

*Lake Erie*, one of America's huge inland seas, has become a vast cesspool for all the cities, steel plants, and other polluters along its shores. Beaches have been closed down. Fish, the sport

of fishing, and the business of fishing, are all dead. Because of increasing urbanization and industrialization, increased water use, and a tremendous backlog in the construction of waste-treatment plants, Lake Michigan is now similarly threatened.<sup>4</sup>

*New York City* suffered severe water shortages in ironic circumstances. While drought dried up its mountain water sources, the mighty Hudson flowed by the thirsty city, too polluted to use. In 1965, voters in New York State approved a \$1 billion cleanup job of the Hudson—a job they had turned down as too costly when it was priced at \$10 million 27 years earlier.

*Houston's* Galveston Bay, which produces an annual oyster crop worth more than \$1 million, is seriously polluted. Today, 58 percent of the bay area is off limits to commercial production of oysters because it is so badly polluted.

*Chesapeake Bay* is one of the many bodies of water where chemical sprays from farmland wash into streams that feed into the bay, cause high concentration of dangerous insecticides, threaten the shellfish and other marine animals, the eagles and ospreys that feed on the fish, and the source of food and livelihood of many men.

*Potomac River* studies show that soil erosion, which greatly cuts down the natural ability of a stream to absorb wastes and purify itself during the year, feeds into the river 20 to 100 tons of sediment per square mile of forest, and 100 to 500 tons per square mile of farmland. The Washington metropolitan area, urbanized and bulldozed for developments and highways, deposits silt into the stream at the rate of 1,000 to 2,500 tons per square mile.<sup>5</sup>

*Onondaga Lake* is typical of many small lakes situated in urban industrial areas. Partially within the city of Syracuse, N.Y., the lake received untreated sewage and industrial wastes for years, and still receives untreated or partially treated municipal wastes through combined sewers at times of heavy rainfall. The lake water is unfit for drinking and swimming, has an unpleasant odor, and is rapidly growing unfit for industrial use. The south shore of the lake is covered with rubbish, trash, and oily

<sup>3</sup> A case in point is the increasing pollution of Lake Michigan. See *Pollution of Lake Michigan*, a report of the Conference of the Illinois Congressional Delegation, House of Representatives and Federal and State Participants. Printed for the Committee on Government Operations, Washington, 1967, pp. 18-23.

<sup>4</sup> Ibid. A small part of the record to date: A stench frequently arises from the shores of the lake in Chicago, algae slimes the shore of Calumet Park Beach. "Polluted Water—No Swimming" signs are posted at longtime favorite beaches in Hammond, Green Bay, and Milwaukee. Oil seeps foul Sturgeon Bay and debris clogs the Indiana Harbor Ship Canal. Fish almost constantly slosh belly up onto the beaches of the Indiana dunes. The commercial fishing industry totaled 9.3 million catches in 1963, a drop from 15.6 million in 1950. The city of Green Bay has spent millions for a 50-mile pipeline to reach a fresh municipal water supply in the lake. The population of the Great Lakes region is expected to double, and water use is likely to increase almost five times, by the year 2020.

<sup>5</sup> "Preliminary Study of Sediment Sources and Transport in the Potomac River Basin," by J. W. Mark and F. J. Keller, Interstate Commission on the Potomac River Basin, Technical Bulletin, 1963-11, 27 pp.



sludge, and the bottom is reported to be covered with 12 feet of decaying, foul-smelling sludge.<sup>6</sup>

*Los Angeles* has been notorious for its choking "photochemical" smog, which causes smarting eyes, lung irritation, plant damage, and injured pride to thousands of residents who had regarded the climate as one of their unique assets. Each day in Los Angeles County, 9,000 tons of carbon monoxide, 1,180 tons of hydrocarbons, 380 tons of nitrogen oxides, and sulfuric compounds and acids are discharged into the atmosphere.<sup>7</sup>

*East St. Louis* in parts of the city is swept by the poisons spewing from industrial chimneys just beyond the city's corporate limits. According to a city inspector, such a dangerous quality of air results that, if the same air were inside a factory, laborers in the plant would be required by Illinois law to wear gas masks.<sup>8</sup>

*St. Louis*, despite one of the most vigorous air pollution programs in the Nation, still finds that its shiny new arch, its new baseball stadium, its riverfront luxury apartments, and its city center are often blanketed by foul air blown from industries across the Mississippi River (and the State line). An interstate compact aimed at solving the problem has so far not proved effective.

*Denver*, famed for pure mountain air, finds that aspects of high altitude intensify the danger of auto exhaust. The mayor calls air pollution one of his city's top problems.<sup>9</sup>

*Donora, Pa.*, site of the first major air pollution tragedy in the United States, brought Americans face to face with the fact that air pollution was more than a myth or a conservationist's fetish, but a threat to any city that ignored its air supply.<sup>10</sup>

In nearly every large city, sections can be found where trash piles high and unspeakable debris litters streets and parks; where buildings or sections of unique historical or architectural interest are thoughtlessly destroyed or allowed to decay; where main thoroughfares lined with cheap signs and honkeytonk clutter make it all too clear that people and esthetics count for less than material values.

It is city business, and urgent business, to halt destruction of man's ecological foundation. The average citizen who complacently believes

that scientists today have complete mastery over nature and can work any kind of wonders should know how worried scientists have become about restraining the destructive forces we have unleashed. We do not pretend to know much about why past civilizations disappeared. But we seem to be trying hard now to test the ability of a civilization to survive in the face of widespread disregard for its natural habitat.

## SOLUTIONS

Developing a technology of waste and resource management to keep pace with the technologies through which we pollute the environment is crucial if we are to preserve and restore our treasures of air, water, land, and living things. But much of the needed technology already exists. In dealing with water pollution, for instance, primary treatment through sedimentation may remove 40 to 50 percent of the wastes; secondary treatment through bacteriological methods will come closer to 85-percent purification; tertiary treatment with chemicals can be called upon to produce virtually 100-percent pure water. In this case the degree of antipollution control, therefore, depends not on a technology lag. Rather, one may get as much control as he is willing to pay for.

Continued progress in devising better, cheaper methods of antipollution control would obviously be most welcome. But reasonably adequate technology, we repeat, already exists. This technology often is unused because of a lack of three fundamentals—coordination, cooperation, and will. Where these ingredients exist, gratifying successes, large and small, are found. The Pittsburgh "renaissance" with its conquest of smog, the rejuvenation of the Tennessee Valley, and numerous local beautification programs show what can be done. Without these three ingredients, the most sophisticated technological advances will not necessarily spell hope for the future.

### *Coordination*

Present government structure, at all levels, reflects a time when environmental problems could be dealt with in limited areas and with limited resources. Both management and policy formulation are diffused through departments and agencies dealing with conservation, agriculture, environmental sciences, recreation, pollution abatement, resource planning, economic development, urban growth, and human health. This kind of fragmentation stymies the quick application of research breakthroughs whether made by local governments or private industry.

Water supply problems, for example, need not all be solved by finding more water. Great prog-

<sup>6</sup> Despite these conditions, studies have shown that the lake could still be saved, and could again become a major asset of the community. Source: "Proposed Studies for the Restoration of an Urban Natural Resource, Onondaga Lake," Syracuse University, March 1967.

<sup>7</sup> "Air Pollution: The Persistent Foe" by Larry L. Meyer, *Westways*, July, 1963.

<sup>8</sup> Reported during the Commission inspection and hearings in East St. Louis, October, 1967.

<sup>9</sup> *Hearings Before the National Commission on Urban Problems*, Vol. 3, pp. 5-6, 9.

<sup>10</sup> *Restoring the Quality of Our Environment*. Report of the Environmental Pollution Panel, President's Science Advisory Committee, November, 1965, pp. 92-97.

ress has been made in reuse schemes. Santee, Calif., renovates its waste water and discharges it into a string of beautiful lakes for swimming, boating, and fishing.<sup>11</sup> Specialists estimate that a typical city or industry can multiply its effective water supply five times over with current reuse processes. The potential in this area is great; to refine 1 gallon of crude petroleum, for example, may take as much as 44.5 gallons of water—or as little as 1.73 gallons. Finishing a ton of steel may now require as much as 65,000 gallons—but can also be done with 1,400 gallons. To make a pound of artificial rubber takes from 131 to 305 gallons; to blow a ton of glass bottles, 118 to 667 gallons; to generate 1 kilowatt-hour of electricity from 132 to 1,170 gallons. New York City, in crisis, cut down water consumption by 25 percent (and though this involved some hardship and economic difficulty, one may safely assume that a fair portion of the saving stemmed from substituting care and restraint for normally wasteful habits).

### *Cooperation*

A major cause for inaction in the whole field of environmental destruction can be traced to the local government fear that unilateral action will drive away local industry. It would be unreasonable and unrealistic to expect these single local governments to pioneer in conservation measures if by doing so they were forcing away the jobs, the tax base, the civic leadership, and the web of commercial activities linked to certain industries. We may properly ask ourselves what good it is to keep any corporation or industry happy if it is in some way destroying the habitability of the region. But this will not be persuasive to political leaders, except for those fortunate enough to deal with industrial leaders who strongly identify their business interests with the well-being of their region and who are thus willing to join in corrective measures, even if this involves short-term sacrifices.

Because pollution abatement measures may be costly, at least initially, we should try to see that there is no competitive disadvantage in complying with such measures. This suggests that abatement controls often need to be uniform throughout a metropolis, an airshed, a river basin, or in some instances, throughout the Nation. We aim not to equalize natural competitive advantages from place to place, but to avoid penalizing any area that has the vision to keep its environment as rich, clean, and beautiful as possible.

<sup>11</sup> Remarks of Max N. Edwards, Assistant Secretary of Interior for Water Pollution Control, "Government and Industry—Partners in Pollution Control," Houston, Texas, April 4, 1968, p. 3.

We should not suppose that these problems are insuperable, or that to demand clean air, for instance, will drive out the industry which provides the economic lifeblood of a community. Some of the most industrialized areas of the world have successful smoke abatement programs. After the initial investment in technology, some industries have even begun to recapture valuable byproducts that were literally going up in smoke. The waste management field is likely to turn up many additional opportunities for rewarding enterprise as well as society.

### *Will*

To save the environment requires an awakened citizenry. Beaches, waterfalls, virgin forest, wildlife refuges, city lakes, rivers, and parks can be saved or restored if there is a local and national will. The signs of citizen and government concern are encouraging. Citizen groups have formed to save the air, the parks, and the waters.

The Federal Government has, in the last decade, conducted hearings, published reports, financed studies, established commissions and interagency committees, and held conferences designed to probe specific areas or to point directions for particular aspects of environmental policy. State and local governments, too, have shown concern. It would have been both impossible and undesirable for this Commission to duplicate the work already done in this area. But we have tried to learn from it, particularly as it touches our specific concerns in urban matters.

The problem of national will affects the setting of priorities. Americans did not specifically desire or cast votes for the present environmental crisis. But because we assigned higher priorities to other matters while neglecting the cumulative effect of each relatively small polluting action, the crisis now confronts us. To resolve this crisis, we must look at it realistically in the context of all our other serious national problems. At a minimum, we must understand the consequences of assigning a low priority to environmental issues.

We believe that problems of waste and resource management are crucially related to the problems with which our Commission has dealt. We add our voice to those already raised in recommending the development with all possible speed of a thoughtful, coordinated national policy. A Council of Ecological Advisors, similar to the Council of Economic Advisors in the Executive Office of the President, has been widely suggested, and seems a sensible and constructive place to start the formation of this policy. Working with the appropriate Cabinet departments, the Council would sift and coordinate the recommendations already made, and



could establish a viable "system of ecological accounts" for use by all Government agencies. This should not be confused with the National Institute of Environmental Sciences recommended in part III, chapter 2, whose purpose is to develop and promulgate standards.

The Commission also supports the recommendation that the States, through State boards of environmental quality control, assume more responsibility and a stronger position of leadership in the area of waste and resources management. Air and water pollution problems will undoubtedly require, in addition, more interstate compacts to establish standards and controls, but individual States are, in most cases, the logical governmental level from which to supervise the disposal of solid wastes. Municipalities generally have ample authority to regulate solid waste handling, but few States have enacted laws which enable local government units to deal collectively with problems of collection and disposal on a metropolitan or regional basis. One instance of the need for a State role will suffice: When a given municipality has no more disposal sites and attempts to purchase land in a neighboring community or unincorporated area, political boundaries are formidable obstacles which may prevent the site from being used for refuse disposal. States could help by "land banking" future sites for sanitary land fills, and could possibly regulate the disposition and transport of solid wastes taken in transit over 25 or 30 miles.

We do not want to leave the false impression that the potential for action in the conservation field is preempted by governmental units. On the contrary, the local environment is in

large measure a reflection of the activities of individuals, property owners, and neighborhood groups.

The citizens who fight the battles against litter, who put flower boxes on their windows, who plant greenery in vest-pocket parks, or who see that lamp posts are hung with flower baskets, all make their contribution.

Trees are natural air conditioners. They absorb carbon dioxide that is poisonous to man while giving off the oxygen man needs. Thus, anybody who plants a tree also helps create a more comfortable, healthful, and attractive environment.

The civic-minded person who requests, or if need be demands, adequate trash pickup is playing a vital part in this struggle for a better urban environment; and though once-a-week collections suffice in many suburban areas, densely populated sections where poor people live may require two or three pickups a week.

None of these matters, of course, are radical or visionary. They are simply reminders of the best practices already being carried out. They explain why certain cities or neighborhoods—whether in New England, the South, the West, the Midwest, Europe, or wherever—stand out as gems. In all such places, the individual citizens as well as the governing bodies share the credit for making and keeping their areas livable.

Even the briefest review of the studies and recommendations already made shows that there is a solid base of knowledge from which we can attack environmental problems. The time has come to stimulate, by every appropriate means, the national will toward coordination and cooperation in pursuit of a truly livable environment.

## CHAPTER 2

# Design and the Quality of Cities

The Commission's congressional mandate for studies of specific urban problems was augmented by a Presidential request for "ideas and instruments" designed to attain "a revolutionary improvement in the quality of the American city." This has been one of the Commission's most challenging assignments. It asks for a definition of the American city that Americans could have, should have, and want. An answer would establish the picture of the product we are trying to create—but there is no national agreement on the picture. The request goes further and asks for "instruments" to attain it. And the request for ideas to attain a "revolutionary improvement" implies *new* ideas. It also implies a sense of urgency.

Four basic questions must be answered: (1) What is "quality"? (2) What level of "quality" do we want? (3) How is "quality" achieved? and (4) What level of "quality" are we willing and able to pay for and how soon? If we could answer these, we could look at specific urban problems in a new framework—and this would change many answers we are working on today. We are, in effect, trying to "fix up" something to approach a model that is still visionary and undefined.

As we have watched our cities grow less and less habitable over the years, we have used words that were supposed to indicate a level of quality. But the words—safe, sanitary, decent, desirable, suitable, adequate, appropriate, workable, realistic, effective, humane, controlled, planned, good, healthy, orderly, balanced, etc.—have done little to fire men's imaginations. They have in fact, often conveyed little meaning.

### WHAT IS QUALITY?

"Quality" is another word used frequently. It is generally used with the word "good" or "fine" implied. Used in the phrase "the quality of the American city," it is usually meant to refer to the physical city or the "setting" for life in the city. It may imply a "fine" setting for a "good" life in the city, and may be extended to assume "good" government, and education, and employment, and all of those nonphysical elements that would be essential parts of a

really "fine" city. It can be assumed that the "fine" physical setting must include all of these elements.

We are accustomed to defining "quality" in negative terms. Nonslums, absence of transportation problems, better schools, etc., help to say what it is we do not want or want improved, but they take their meaning from conditions that are "bad." A "better" place to live is "better" than a "bad" place. But there is no measure defined in relation to a "good" place.

Without a clear picture of urban quality, layman and lawmaker alike have no common goal by which to judge what we are building and rebuilding today. The best way to understand a good city is to live in it. We have parts of cities that are fine, but all too much of every city lacks quality.

There is little in the extensive urban literature that explains to citizens and lawmaker what a well designed building or community or city looks like, or how it works. One of the few helpful statements is Sir Henry Wotton's adaptation of Vitruvius—"Well-building hath three conditions: Commodity, Firmness and Delight." Early in this century, Geoffrey Scott explained these words as follows:

Architecture requires "firmness." By this necessity it stands related to science, and to the standards of science. The mechanical bondage of construction has closely circumscribed its growth. Thrust and balance, pressure and its support, are at the root of the language which architecture employs. The inherent character of marble, brick, wood, and iron have moulded its forms, set limits to its achievement, and governed in a measure, even its decorative detail. On every hand the study of architecture encounters physics, statics, and dynamics, suggesting, controlling, justifying its design. It is open to us, therefore, to look in buildings for the logical expression of material properties and material laws. Without these, architecture is impossible, its history unintelligible. And, if, finding these everywhere paramount, we seek, in terms of material properties and material laws, not merely to account for the history of architecture, but to assess its value, then architecture will be judged by the exactness and sincerity with which it expresses facts, and conforms to constructive laws. That will be the scientific standard for architecture: a logical standard so far as architecture is related to science, and no further.

But architecture requires "commodity." It is not enough that it should possess its own internal coherence, its abstract logic of construction. It has come



into existence to satisfy an external need. That, also, is a fact of its history. Architecture is subservient to the general uses of mankind. And, immediately, politics and society, religion and liturgy, the large movements of races and their common occupations, become factors in the study. These determine what shall be built and, up to a point, in what way. The history of civilization thus leaves in architecture its truest, because its most unconscious, record. If, then, it is legitimate, no less, to see in it an expression of human life, this furnishes a standard of value totally distinct from the scientific. Buildings may be judged by the success with which they supply the practical ends they are designed to meet. Or, by a natural extension, we may judge them by the value of those ends themselves; that is to say, by the external purposes which they reflect. These indeed, are two very different questions. The last makes a moral reference which the first avoids, but both spring, and spring inevitably, from the link which architecture has with life—from that "condition of well-building" which Wotton calls "commodity."

And architecture requires "delight." For this reason interwoven with practical ends and their mechanical solutions, we may trace in architecture a third and different factor—the disinterested desire for beauty. This desire does not, it is true, culminate here in a purely esthetic result, for it has to deal with a concrete basis which is utilitarian. It is, none the less, a purely esthetic impulse distinct from all others which architecture may simultaneously satisfy, an impulse by virtue of which architecture becomes art. It is a separate instinct. Sometimes it will borrow a suggestion from the laws of firmness or commodity; sometimes it will run counter to them, or be offended by the forms they would dictate. It has its own standard, and claims its own authority. It is possible, therefore, to ask how far, that is to say, that instincts which in other arts exert an obvious and unhampered activity, have succeeded in realizing themselves also through this more complicated and more restricted instrument. And we can ask, still further, whether there may not be esthetic instincts, for which this instrument, restricted as it is, may furnish the sole and peculiar expression. This is to study architecture in the strict sense as an art.

We will broaden this great definition of "well-building" to include the well-building of cities so that all structures and all land and all relationships of structures and land meet all three conditions—"Commodity, Firmness, and Delight." Until we have a broad understanding of these requirements we will continue to find it difficult to define the "quality of the American city."

Recently there have been timid suggestions that cities should have some esthetic qualities, that they should not be ugly, that they should provide the quality of "delight" as a separate and separable characteristic. But it cannot be separated. It is only one of three inseparable characteristics of a "fine quality" city.

Hume once wrote: "I am uneasy to think I approve of one object and disapprove another; call one thing beautiful and another deformed; decide concerning truth and falsehood, reason and folly—without knowing upon what principles I proceed." We are all uneasy today because we don't have principles that we all

understand. And a world with fewer and fewer limitations on the possible makes it more and more difficult to develop principles that can be commonly understood. Once the man-made environment changed slowly; there was time to examine and get acquainted with and understand it. Today, man changes his world so quickly that he is almost put in the position of a man reading about reading while teaching himself to read. He is understandably uneasy.

When he tries to set up principles to guide him in evaluating his life in the city, in the home he shares with his family, in the place where he works, along those streets he traverses each day, he feels increasingly unsure of his judgments. As an example, not so long ago all that was *new* was said to be good. That was progress in a world of comparative scarcity. Now, so much of the *new* that was once thought to be good because it was *new* is bad. Man is called on to make sophisticated judgments that require modification—if not rejection—of the possible and the new. One work that sets forth principles that Hume sought so that he would not feel "uneasy" in calling "one thing beautiful and another deformed," is Strunk's small book on "The Elements of Style." It happens to be about writing, not architecture, but it contains passages that are helpful in trying to explain architecture and cities. Strunk had the courage to set forth his elements of style in less than 50 pages.

This book is greatly needed today. In E. B. White's added chapter, "An Approach to Style," he says:

Up to this point, the book has been concerned with what is correct, or acceptable, in the use of English. In this final chapter, we approach style in its broadest meaning; style in the sense of what is distinguished and distinguishing. Who can confidently say what ignites a certain combination of words, causing them to explode in the mind? Who knows why certain notes in music are capable of stirring the listener deeply, though the same notes, slightly rearranged, are impotent? These are high mysteries, and this chapter is a mystery story, thinly disguised. There is no satisfactory explanation of style, no infallible guide to good, no assurance that a person who thinks clearly will be able to write clearly, no key that unlocks the door, no inflexible rules by which the young writer may shape his coarse. He will often find himself steering by stars that are disturbingly in motion.

Later, discussing his reminder to "Work from a Suitable Design," he writes:

Before beginning to compose something, gage the nature and extent of the enterprise and work from a suitable design. Design informs even the simplest structure, whether of brick and steel or of prose. You raise a pup tent from one sort of vision, a cathedral from another. This does not mean that you must sit with a blueprint always in front of you, merely that you had best anticipate what you are getting into. To compose a laundry list, a writer can work directly from the pile of soiled garments. But to write a biography the

writer will need at least a rough scheme; he cannot plunge blindly and start ticking off fact after fact about his man, lest he miss the forest for the trees and there be no end to his labors.

Perhaps we are afraid "to steer by stars that are disturbingly in motion." We may have only the vision "to raise a pup tent"—not a fine city. Maybe we have only come far enough in our thinking to prepare "laundry lists" from a pile of soiled cities. Perhaps, by substituting a few words in one of White's sentences, we may understand more about life in cities and city life. But to build a city the builder will need at least a rough scheme; he cannot plunge in blindly and start ticking off fact after fact about his city, lest he miss the city for the bricks and there be no end to his labors. It may well be that we have responded with laundry lists to our belated concern with esthetic experience as a factor in man's development. We may have to steer by stars even more disturbingly in motion than they were, "before we can find the suitable design" that must inform not only the simplest structure, whether of brick and steel or of prose, but must inform that more complex structure—the city.

#### WHAT LEVEL OF QUALITY DO WE WANT?

When we try to answer the second question—"What level of quality do we want?"—we enter a more complex field involving the establishment of a hierarchy of values. The cultural ambitions of the whole society must be examined. Ambitions, aspirations, expectations—all goals become relevant. In order to act, we are forced to select those qualities of cities which we believe are prime and relate them to all other aspects of a "fine quality city." This is more difficult than defining "the best quality."

The establishment of the level of quality requires consideration of reasonable and achievable goals as well as consideration of maximum aspirations. And the level will change as the society redefines its total goals. The "possible" become achievable—and there are new definitions of "possible." These are not only economically possible goals but also those that develop from the expansion of man's abilities to conceive—to project forward into a world that grows out of new ideas rather than the manipulation and regrouping of apparent realities. The "idea" of space had to precede its exploration. The level of exploration had to be established before precise programs were possible. As the realities of space became clearer from direct human experience, and previously unthought of technical developments were achieved, so did the original "idea" of space expand.

In a real sense, this process has begun to take place in our "ideas" about cities. Previously American ideas of cities resulted largely from the accidental results of grouping more and more people in certain land areas and trying to solve by regulations some obvious problems that arose. Today, we are beginning to examine cities as ideas.

In the introduction to his recent book, "Design of Cities," Edmund Bacon stated:

The form of the city always has been and always will be a pitiless indicator of the state of man's civilization. This form is determined by the multiplicity of decisions made by the people who live in it. In certain circumstances these decisions have interacted to produce a force of such clarity and form that a noble city has been born \* \* \*. My hope is to dispel the idea, so widely and uncritically held, that cities are a kind of grand accident, beyond the control of the human will, and that they respond only to some immutable law. I contend that human will can be exercised effectively on our cities now, so that the form that they take will be a true expression of the highest aspirations of our civilization \* \* \*.

If we intend to improve the quality of the American city, we must decide to develop cities "as an act of will" rather than a "grand accident." This means that we must *design* them and build them to a design. Mr. Bacon states that "given a clear vision of a 'design idea,' the multiplicity of wills that constitute our contemporary democratic process can coalesce into positive, unified action on a scale large enough to change substantially the character of a city."

The "grand accident" has not produced fine cities. As life in our cities becomes less tolerable for more and more people, we are being forced to act. It is not surprising that we are unsure of our directions. But we are "acting" in a new way. We are "conceiving" of more than problem solving, approaching a system of idea and response that is closer to our system for space exploration. It is a different and more complex system that we are developing. It must respond to even less-understood elements of human will and behavior. It is as yet a timid new system. It involves the whole of society, and we no longer reject the whole.

In defining the level of quality we want, we are redefining possible levels and constantly enlarging our ideas of the possible. Our way of looking at cities is so new that we are not even familiar with the instruments we will need. The familiar tools were problem-solving instruments and tended to hamper performance because they remained closer to the problems than to the ideas or goals. They were useful as solutions to problems, but they are inadequate to the new task we are beginning to conceive.

As our system for thinking about cities expands, it will bring about great changes in our definitions of "quality." A thoughtful proc-



ess will replace the haphazardly accidental. Many of our ideas about quality will have to be discarded because they developed from the accidental and from problem solving. The answers to "what is quality" and "what level of quality we want" will change.

#### HOW QUALITY IS ACHIEVED?

In a response to the third question—"How is quality achieved?"—there is one major answer. It is achieved by a thoughtful process of design—the careful study and development of every part of a building or a city. It means searching to find the best material to do a job and the best way of using that material, as well as the development of new methods and materials. It also means the development of a total scheme—for a building or a group of buildings or a city that will not only function well but give pleasure to those who live in it. The careful design of a wood bench for a park is as important as the design of a palace. The design of thousands of places for people to live is a job that must be done. The design of thousands of schools is a job that must be done.

Those who help to define the goals and evaluate the product that is developed to meet those goals have a new and increasingly important role.

"Good design" does not jump onto the drawing board at some point; time and research and ability and infinite care are the essential ingredients for good design. Money for the design of all kinds of transportation, communication, and military hardware is understood and provided, but money for the design of buildings and cities is not.

No one has ever seen a fine, democratic city. Yet this is what we are trying to build today—a city that fulfills all the promises of democracy. "Rising expectations," in this context, is not a hollow phrase, but the challenge of the future. *The "urban scene"*

We have produced an "urban scene" that misuses the word "urban." For "urban" once meant "belonging to the city or town—refined or polished." The urbane man, as opposed to the rustic, was supposed to be "courteous and polite and polished."

In an introduction to a book written 40 years ago on *Good and Bad Manners in Architecture, an Essay on the Social Aspects of Civic Design*, this question of urbanity is well posed by Trys-tam Edwards:

Can a haphazard assemblage of buildings, each conceived in isolation, and expressing nothing but its own immediate purpose, really be described as a city? What attribute is it which makes a building urban? My answer to this latter question may seem simple and tautological, but I am venturing to give it nevertheless. In

order that a building may become urban it must have urbanity. I propose to analyze the precise nature of this urbanity. Now, urbanity, as everybody knows, is nothing more nor less than good manners, and the lack of it is bad manners. I think I shall have little difficulty in showing that there can be both good and bad manners in architecture.

Today, the old meaning of the word "urban" has been lost. It is as if the opposite meaning now applies. The "crude" replaces the "refined" and the qualities attributed to the rustic become prime. It is significant that we use the word "jungle" in talking about our cities. For this scene, this setting for city life, is not an urban setting for urbane citizens. The city has become a crude and ugly place and those who can do so flee to the urban countryside, to houses set in the green valleys and along the forested hills. The city has become the place where the poor and the discouraged cling together in neglected houses along dreary streets.

Without saying too much about it, most families have come to believe that the city is not a decent place to bring up children. Few talk about *making* city life good for children. Primarily the children of the poor are being brought up in this "crude and unpolished setting," wrongly called an "urban setting."

But concerned men in every field related to city life and city building are beginning to ask themselves what a good life in the city should offer, how this life can be made "urban," and what its physical expression can be. Some say the city is dead and no longer has the reasons for existence that old cities had; therefore, the patterns of human settlement must change and new forms emerge. Others say the city is only sick from neglect and can be made healthy again.

Today we are trying to build and rebuild a truly democratic city, and many feel saddled with guilt. For we have long neglected the people who live in the city and who have crowded into it in recent years seeking what some other people have. We have neglected the physical city for so long that in trying to rebuild it we are embarrassed to use any more exciting words than "a decent home and a suitable living environment for every American family" in our legislative language. These words do not define adequately the level of quality that men should seek today.

We must translate the word "decent" into "lovely" and "suitable" into "pleasing." For men expect more than the safe and sanitary box. Men seek a new quality in urban life and its setting and they ask for this on a scale no society has ever provided. The level or quality we want is tied to the *quantity* of this quality we seek.

It will take many words and drawings and models and finished products to make the design of cities an art that all men understand. There

are great new possibilities that are both technical and conceptual. The city designer's client is new. It is all the people. A respect for thoughtfulness and creative work that the design of fine quality cities requires will emerge from a mandate to produce the best possible effort.

### *Working capital for ideas*

What we need most of all is working capital for *ideas*; that is, for *design*. There is a persistent belief that the design of buildings, as well as cities, is the easy part of the job, and that it involves nine parts inspiration and one part work. This belief is widely held because the United States has been the "doer" of the world and has been impatient with the philosopher and the creative man who knows that creative ideas take time to develop.

For example, until very recently, almost all apartments were designed by "apartment house architects." Their charges were low and often they were not paid until the job was under construction. They designed structures that met code requirements. They put as much building on a lot as the law allowed. And they used identical plans wherever possible. Whole areas of cities are direct expressions of this system. No one bothered with new designs. Apartments were a commodity, to be bought and sold. No one demanded anything but more of the same, and the banks didn't need to bother with many special building analyses. Location of the building and the financial standing of the developer were the important factors. The commodity could be judged easily with numbers. How many square feet? How many rooms? How many apartments? The quality of materials could be listed. There was little variation.

The *quality* of the living space and the quality of the environment were ignored. If the market was good, money was made available to build. The great bulk of apartment building in the United States is still handled in this way. The FHA was manned by those familiar with the system, and change has come slowly. Neither the FHA nor the lending institutions have been staffed by men who believed that there was much that was basically wrong with American cities. They were not seeking, nor were they trained to seek, the new. As long as the familiar pattern of the city existed, they did not need further training. Now they and everyone connected with city building must have "further training." The old patterns are no longer acceptable.

A major part of the problem is the complete lack of financing for design and development prior to construction. When working drawings are completed, the builder obtains a building permit, construction begins, and the first call on the mortgage can be made. Three-quarters of the architect's and engineer's work is completed.

There is no financing for this major cash requirement. It is understandable that every developer seeks to minimize these costs. Yet, it is the first fourth of this three-fourths of the work, the design and development stage, that should be given the greatest amount of time and money. It is this stage that gets shortchanged, although it is precisely this part of the work that produces buildings worth building and cities worth living in.

"Design" as used here does not just mean building design. It means social, legal, and financial design. It means creative thinking in all fields. Money must be made available for all of these functions. The new places men seek must be created by creative men in a thousand disciplines.

A start might be made by establishing a *design development bank*. There are development banks of all kinds for international development. It seems sound to apply this principle to design. The financial statements and net worth of those seeking loans would be very different from those required by a typical mortgage bank today. A private developer could ask for a loan. So could a city or town, a planning commission or school board, any individual or group legitimately involved in the development of cities and towns, or any portion of them.

Let us assume that such a bank became an immediate success because it responded to a national desire to build a fine environment for every citizen. Let us assume, also, that this special bank began to acquire a new role and that it established major centers for the dissemination of information based on the analysis of all of the loans it granted and their effect on the urban environment.

It might well happen that a building or a city that obtained a design loan and took full advantage of it would be in a favorable position. Its sponsors could borrow money for the construction of a project because its careful and creative development could make it a sounder investment than those without design loans. The entire mortgage banking business and the allocation of government funds might change. The quality of the total environment demonstrated on the loan application would become as important in determining loans as the quantities that fill the mortgage analysts' pages today. It could be that a design development bank record would become a marketable item, and that mortgages on design development bank properties would become a new gilt-edged investment.

The way to build the American city we need now must involve the marketplace, and the marketplace is the entire United States. It is the architecture of the "marketplace" that will make the fine cities and towns men know are



possible to build today. A design development bank could make this possible, and our recommendation addresses this possibility.

#### *Ideas and instruments*

We will have to develop many other "ideas and instruments." We may need to create a national resources (man-made) board. Not much rewriting of the following 1934 statement on "Natural Resources" would be necessary to create this board.

The natural resources of America are the heritage of the whole Nation and utilized for the benefit of all our people. Our national democracy is built on the principle that the gains of our civilization are essentially mass gains and should be administered for the benefit of many rather than the few; our priceless resources of soil, water, minerals are for the service of the American people, for the promotion of the welfare and well being of all citizens.

We need many other new organizations and institutions in order to achieve the fine quality of the environment that we realize we want, need and can have. These are both public and private—and combinations of these.

In order to achieve quality we must know what it is and what level we want, and we must begin to implement new ways to achieve it. An understanding of the design process is central to this. We have accepted design as a method essential to the creation of rockets to reach the moon and supersonic planes and hundreds of products that we have created as an act of will. But we have neglected our cities—and it is not surprising that we have neglected to design them. As long as they are essentially accidental products, they will not command attention, effort or design.

We look ahead to designs for our housing and cities that embody the ideal coming together of simplicity, honesty of construction and expression, contrast and variety, economy and spirit—qualities that define the word "beauty" as applied to things as inanimate as buildings. We look for designs that place the benefits to the user ahead of the benefits of the producer, designs that reflect the best effort possible for our day and place.

There are no rules for designing a house, an apartment, a neighborhood, or a city, that will of themselves produce a good place to live. There are, on the other hand, love, work, commonsense, time and resources, and labor which can produce a good place in which to live. These ingredients must be there, and the mandate for good places in which to live must be loud and clear.

#### *The systems approach*

The design of cities and buildings is moving closer to the design techniques used in modern industry, space, communications and data

processing, through what is called the systems approach.

The systems approach begins with an identification of the user requirements, including the potential changes in use to which a building may be subjected over its useful amortized life. This provides the basic user criteria which the system will have to meet, and may include such items as acoustic separation between apartments; the level of thermal control; the properties of surfaces for impact, fire, abrasion; the amount of area required for different functions; the relations of spaces one to another; the relation to outside areas; organization of the spaces to provide for security, and the management systems for operation and maintenance of completed buildings. The development of criteria and their relation to cost coordinates the requirements in such a way that appropriate allocations can be made between the different factors. One must not put too much of the resources into the thermal environment if, as a result, one takes the money away from appropriate party walls to provide for acoustic privacy. It is in this way that one can balance the organization of resources to do a proper job.

The responses of industry may be arranged in a variety of procedural and technical forms by the needs of the project. In addition, for a given set of needs, different segments of the building industry will find different "best solutions" in the light of their own capabilities. Product designs must be developed so that the building components will fit with one another in different ways to provide for a variety of individual requirements. This provides for the aggregation of specific markets to create volume. The present practice of developing new ideas through custom building of one project at a time limits the scale of the market and results primarily in decorative changes. Significant development cannot occur without a more thorough approach to construction.

A systems approach to construction, which allocates resources to needs, is essential to the effective development of new technology in building. It calls for the rational development of new products and procedures in response to a given situation of user needs and markets. Initially, needs are defined in social terms. It is, therefore, important to develop a method of communication, so that the basic user requirements can be translated into meaningful terms for industrial response in the creation of new products. Performance specifications, which state what technology must do rather than how it must do a job, can provide such a method. Social needs can then be expressed in terms of performance requirements to which industry can work. To be meaningful, this work must be

related to housing target costs. In the process, trade-offs between required levels of performance and attendant costs must be made.

#### *User needs*

For technology to apply to the real needs of people seeking housing, their requirements must be understood. The building programs today for lower or moderate income housing relate to patterns of life assumed appropriate or acceptable for people who can independently afford good housing. Those programs frequently do not apply to the variety of life styles, family types, and conditions of lower and moderate income families. These families often have more complex living patterns, such as those occasioned by single-parent households and extended families. Middle-income families have resources to supplement major living requirements outside their household, such as nursery schools and recreation which they can pay for and reach. Low-income families frequently do not have the resources to satisfy these requirements. The dwelling unit and its immediate neighborhood should, therefore, provide for a more complex range of activities than those required for middle- and upper-income families.

The appropriate study of activity patterns which may be stated as user needs has not yet been made. Consequently, it is difficult to specify exactly what it is that should be developed in order to provide appropriate housing for lower or moderate income persons. Technology is frequently misdirected to solve assumed rather than real problems, partly because it is easier to define and solve technical problems than social problems.

The scale at which we work is increasing in size and speed. Our opportunities for cities to grow and evolve gradually, with sympathetic response to the community, have given way to large-scale programs, wherein the qualities previously developed through evolution must be provided by design. This is a major problem, and difficult to deal with in an *ad hoc* manner. We must understand the systematic procedures of determining the evolving needs of people, the way in which these needs may affect the utilization of available finance, and the technological opportunities which we may call upon when trying to meet these needs.

#### QUALITY—HOW SOON?

The fourth question—"What level of quality will we be willing and able to pay for and how soon?"—requires a response by the whole society. It must define the levels of quality it seeks, it must understand how much time and money will be required to design and build to the desired level of quality, and it must be

prepared to pay. This involves definitions of goals and economic priorities.

These decisions also require an increasing recognition that the "system" for developing the new consciously structured cities that we are beginning to talk about is *new*, and that methods developed to cope with the problems of the accidental city are no longer valid. The most difficult process will be not only the abandonment of the old, inadequate standards of quality, but also the reform of the processes that led to these standards. The "ideas and instruments" to attain "revolutionary improvement in the quality of the American city" will also have to be "revolutionary."

#### Recommendation

**The Commission recommends the establishment of a Design Development Bank in an appropriate public, quasi-public or private agency for the funding of the development of design for specific projects in low- and moderate-income housing, neighborhood redevelopment, urban renewal, or any combination thereof.**

This recommendation grows from the need for time and study at a point where it is normally cut short. It would provide for resources directed to the development of ideas prior to the execution of a project, including:

1. Funds for the development of prototypes using local needs and community priorities as a basis for design.

2. Advances to nonprofit sponsors, housing authorities, or large-scale developers for the development of project design during the organizational phases.

3. Advances to correct the present situation in which it is necessary for architects, engineers or planners to "finance" the design for months or years before construction takes place and a call is made on the money. (Few architects, especially in the younger, smaller firms, can afford this.)

4. Advances for specific brick-and-mortar projects where funding from public or private sources is available and the project passes a test of preliminary feasibility—for test borings, architectural design preliminaries, and real estate analysis.

5. Funds for the social, legal and financial "design" now being done in many cases by volunteers.

Project funds, where qualifying, can be increased by the amount of the interest charged, and the bank can be repaid when the mortgage funds are available.

Beyond a public mandate for good design, nothing will improve the design quality of housing of all kinds more than the funding of



design operations when the design operations take place—that is, during the formative stages. The present situation limits the depth of preliminary studies, restricts the number of architectural, engineering, or planning firms that can afford to do certain types of projects, and reduces the amount of time available for preliminary analyses and drawings.

This is an instrument for paying for these services as they are accomplished. It will greatly

stimulate the development of project innovation, the involvement of the range of necessary consultants (sociologists, planners, economists, real estate consultants), and the use of a large pool of the best architectural and planning talents in the housing field. The high cost of doing business with the various levels of government can be offset somewhat by this instrument, and can generally be offset at very little cost to the public.

## Biographies of Commission Members

- Paul H. Douglas**, Chairman. Washington, D.C. Senator from Illinois, 1948 through 1966. Former alderman, City of Chicago; economics professor, University of Illinois. Floor manager, 1949 Housing Act. Early proponent of civil rights legislation. Author *Theory of Wages*, *In Our Time*, other books and articles.
- David L. Baker**. Garden Grove, Calif. Member, Orange County Board of Supervisors since 1963 (chairman, 1967). Former flood control engineer, Los Angeles County. Instrumental in formation of Southern California Association of Governments; active in national, state and regional county associations; member, California Advisory Council on Intergovernmental Relations.
- Hugo L. Black, Jr.** Miami, Fla. Attorney. Law partner since 1962 in firm of Kelly, Black, Black & Kenny. Arbitrator since 1962. Author of law review articles.
- Lewis Davis**. New York, N.Y. Architect. Partner in Davis, Brody & Associates since 1954. Principal works, office buildings, community centers, schools, churches, banks. Adjunct professor at Cooper Union. Former chairman of planning, East Midtown Community Council, New York City. Member, Mayor's Advisory Committee on Housing.
- John M. DeGrove**. Boca Raton, Fla. Professor and chairman, Department of Political Science, Florida Atlantic University. Consultant to state and local governments on constitutional and structural revision. Author of books and articles on resources management, urban politics, Negro voting patterns. Consultant, Public Broadcast Laboratory.
- Anthony Downs**. Chicago, Ill. Senior Vice President, Real Estate Research Corporation. Consultant on urban affairs and government to the Rand Corporation; to HUD; to Chicago's planning and urban renewal departments; to the National Advisory Commission on Civil Disorders. Author *An Economic Theory of Democracy*, other books and articles. Trustee, Hull House; member, Housing Advisory Committee, Chicago Human Relations Commission.
- Ezra D. Ehrenkrantz**. San Francisco, Calif. President, Building Systems Development, Inc. Architect. Associate professor of architecture, University of California, Berkeley. Project architect for systems development of schools, university residences and in-city experimental housing. Member, U.S. Chamber of Commerce Advisory Technology Board.
- Alex Feinberg**. Camden, N.J. Attorney, firm of Evoy & Feinberg. General Counsel, New Jersey Expressway Authority. General Counsel, New Jersey Home Builders Association. Specialist in zoning and planning law. Member, Governor Meyner's Advisory Planning Commission. Active in home building business.
- Jeh Vincent Johnson**. Poughkeepsie, N.Y. Architect. Partner, firm of Gindele and Johnson. Architectural instructor, Vassar College. Member, Poughkeepsie Township Planning Board. Consultant to Dutchess County Planning Board on landmarks and historic structures. Member, National Housing Committee, AIA; Task Force on Equal Opportunity, AIA.
- John H. Lyons**. St. Louis, Mo. General President, International Association of Bridge, Structural and Ornamental Iron Workers. Also vice president, building and construction trades department; vice president, metal trades department; and vice president, AFL-CIO. Member, Citizens Advisory Council, Bureau of Employment Security; National Manpower Advisory Committee.
- Richard W. O'Neill**. New York, N.Y. Editor, *House & Home*. Former assistant editor, *Engineering News-Record*. Author, *The Unhandy Man's Guide* and *High Steel, Hard Rock and Deep Water* (a history of heavy construction). Conducts round tables with leaders of industry, finance and government to probe housing problems.
- Richard Ravitch**. New York, N.Y. Executive Vice President, HRH Construction Corp. President, Citizens' Housing and Planning Council, New York City. Director, National Housing Conference; director, National Committee Against Discrimination in Housing; member, Business Advisory Council, New York State Urban Development Corporation.
- Carl E. Sanders**. Atlanta, Ga. Former Governor of Georgia, 1963-66. Attorney, senior member of firm of Sanders, Thurmond, Hester & Jolles. Former member of Georgia House and Georgia Senate. Chairman, Appalachian Governors Conference, 1964-65.



**Mrs. Chloethiel Woodard Smith.** Washington, D.C. Architect, city planner. Principal member, Chloethiel Woodard Smith & Associates since 1945. Carried out major urban renewal projects plus wide variety of individual buildings. Former chief of research and planning, Federal Housing Administration. Member, Commission of Fine Arts; Advisory Council on Pennsylvania Avenue.

**Tom J. Vandergriff.** Arlington, Tex. Mayor of Arlington since 1951, directing development while community grew from 8,000 to well over 80,000 in population. Helped develop cooperative ventures involving both the Dallas and Fort Worth metropolitan areas. President, North Central Texas Council of Governments. Director and past president, Arlington Chamber of Commerce.

**Coleman Woodbury.** Madison, Wisc. Professor of urban and regional planning, University of Wisconsin. Formerly, executive director, National Association of Housing Officials; vice chairman, Chicago Housing Authority; assistant administrator (programs), National Housing Agency. Author, *Urban Development: Problems and Practices* and *The Future of Cities and Urban Development*, many articles. Consultant to government agencies. Taught at Harvard, Northwestern, Yale universities.

## OTHER COMMISSION PUBLICATIONS

In addition to its final report, *Building the American City*, to the Congress and to the President, the Commission has published hearings and research reports. The hearings are in five volumes, each fully indexed. Only those research reports printed by January, 1969 are listed, although others in various stages of printing were anticipated in the months following.

### *Hearings Before the National Commission on Urban Problems*

Cities visited and major topics briefly described:

Vol. 1. Baltimore, New Haven, Boston, Pittsburgh. Rehabilitation, urban renewal, redlining, property taxation, land values; 361 pp., Government Printing Office, Washington, D.C. 20402, \$1.00.

Vol. 2. Los Angeles, San Francisco. Land use regulation, building codes, technology, governing metropolitan areas, low-income housing, inner city social problems; 493 pp., GPO, \$1.75.

Vol. 3. Denver, Atlanta, Houston, Fort Worth-Arlington-Dallas, Miami. Public housing, new housing programs, zoning, building codes, housing codes, urban finance, local government consolidation; 386 pp., GPO, \$1.50.

Vol. 4. New York, Philadelphia. Ghetto growth and problems, integration, cooperatives, urban renewal, jobs, social services; 494 pp., GPO, \$1.75.

Vol. 5. Detroit, St. Louis, East St. Louis (Ill.), Washington, D.C. Local taxes, cooperatives, technology, building codes, environment, inner city development, suburban development, poverty; 499 pp., GPO, \$2.00.

### *Research Reports*

1. *Impact of the Property Tax*, by Dick Netzer, effect of the tax on urban land use, housing, government finance, 48 pp. (reprinted as Joint Economic Committee Print 95-054), Government Printing Office, Washington, D.C. 20402, \$0.20.
2. *Problems of Zoning and Land-Use Regulation*, by the American Society of Plan-

ning Officials, 80 pp., Communication Service Corp., 1333 Conn. Ave., N.W., Washington, D.C., \$2.50.

3. *The Challenge of America's Metropolitan Population Outlook—1960 to 1985*, by Patricia Leavey Hodge and Philip M. Hauser, projection of city-suburban growth patterns, 99 pp., GPO, \$1.00. (Also in hard cover from Praeger, 111 4th Ave., New York, N.Y. 10003, \$7.50.)
4. *The Large Poor Family—A Housing Gap*, by Walter Smart, Walter Rybeck and Howard E. Shuman, shortage of public housing and other subsidized housing for families of 5 or more members, 28 pp., Communication Service Corp., \$1.00.
5. *The Federal Income Tax in Relation to Housing*, by Richard E. Slitor, 162 pp., GPO, \$1.25.
6. *Local Land and Building Regulation*, by Allen D. Manvel, survey of how many agencies, how much personnel, salary levels, building code adherence to model codes, building code restrictions, etc., 48 pp., GPO, \$0.55.
7. *Housing America's Low- and Moderate-Income Families*, by Nathaniel Keith, review of Federal housing programs, 30 pp., GPO, \$0.40.
8. *More Than Shelter*, by George Schermer Associates, study of social needs and programs in public housing, 213 pp., GPO, \$1.75.
9. *Housing Conditions in Urban Poverty Areas*, by Allen D. Manvel, a statistical survey using Census statistics, 21 pp., GPO, \$0.35.
10. *Urban Housing Needs Through the 1980's: Analysis and Projection*, by Frank S. Kristof, measuring substandard and overcrowded housing, 92 pp., GPO, \$1.00.
11. *Zoning Controversies in the Suburbs: Three Case Studies*, by Raymond and May Associates, looking at complexity of issues in matters of increased density, residential versus industrial use, and unconventional development, 82 pp., GPO, \$0.75.



12. *Three Land Research Studies*, including  
 "Trends in the Value of Real Estate and  
 Land, 1956 to 1966," by Allen D. Manvel;  
 "Land Use in 106 Large Cities," by Man-  
 vel, and "Estimating California Land  
 Values from Independent Statistical In-  
 dicators," by Robert H. Gustafson and  
 Ronald B. Welch, 72 pp., GPO, \$0.70.
13. (Not issued at press time.)
14. *Legal Remedies for Housing Code Viola-  
 tions*, by Frank P. Grad, 264 pp., GPO,  
 \$2.00.

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